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S. Hrg. 103-297

HEARING ON THE SMALL BUSINESS ADMINISTRATION'S FISCAL YEAR 1994 BUDGET

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

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JULY 22, 1993

Printed for the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE

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HEARING ON THE SMALL BUSINESS ADMINISTRATION'S FISCAL YEAR 1994 BUDGET

THURSDAY, JULY 22, 1993

U.S. SENATE,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to notice, at 2:30 p.m., in room SR-428A, Russell Senate Office Building, Hon. Dale Bumpers (Chairman of the Committee), presiding.

OPENING STATEMENT OF HON. DALE BUMPERS, A U.S. SENATOR FROM THE STATE OF ARKANSAS

The CHAIRMAN. The Committee meets today to hear testimony on the administration's budget proposal for the SBA and, perhaps more importantly, to hear the views of our new administrator on several other options which I propose to reduce the cost of SBA's largest loan program, the section 7(a) loan program.

Yesterday, I introduced S. 1274, the Small Business Credit Reform Act of 1993. While I realize that Administrator Bowles has not had the opportunity to review the bill in detail, it contains several proposals similar or related to those in the administration's budget and is the product of extensive discussions between the committee staff and SBA staff.

Initially, I believe that the administration's budget proposal, which calls for a reduction in the 7(a) subsidy rate from 4.92 to 2.37 percent, was overly ambitious. However, my bill reduces the cost of the program even further than the President's budget to 2.21 percent, while providing over $500 million more in program level funding than the administration budget. The bill just introduced will allow for slightly over $7 billion in 7(a) loans in 1994, even under the lower appropriations figure which the Senate Appropriations Committee is considering.

As everybody in the room knows, the SBA 7(a) lending program has been under enormous pressure for more than 2 years. There are thousands of business owners who had never considered going to SBA for help before and have been so referred by their bankers. It was only after great effort that Congress was able to approve my amendment to the recently enacted supplemental appropriations bill, which puts the program back in operation.

In the future we cannot depend on emergency supplementals. This program and those who need it cannot stand 2-month shutdowns. We also cannot expect to find fortuitous offsets in other

Government programs which can be scraped up at the last moment in order to keep the SBA in business.

While I expect to see SBA receive better treatment in the coming years in Presidential budgets, both because I have great confidence in our new administrator and because I know where the President's heart is with respect to small business, the reality is that President Clinton has inherited a crushing Federal deficit which makes it difficult to expect significant program increases.

Moreover, we will be on the doorsteps of the Appropriations Committee and OMB seeking substantial new money to launch the new SBIC Preferred Security Program, which was enacted last year. We must find creative ways to make these programs, and especially the 7(a) programs, serve a vastly increased audience with little or no new resources. We have a bill which, while less than perfect, accomplishes that vital aim.

I am confident that every Member of this Committee shares in the commitment to provide SBA the resources and tools needed to carry out its mission, and to provide the capital which small companies need in order to flourish. We must make the necessary changes in law which make that goal attainable, even if the choices are difficult.

Most importantly, the legislation I have introduced differs markedly from spending cuts proposed by the Reagan and Bush administrations in that it does not place the burden of deficit reduction on the small business borrower. Under this bill, lenders bear the overwhelming share of these program savings. Nevertheless, I am confident that the 7(a) program will remain sufficiently attractive and profitable for banks and other lenders to eagerly participate.

I want to thank Senator Domenici, Senator Wofford, Senator Kohl and Senator Lieberman for joining me as my original cosponsors of S. 1274, and I invite others to examine this bill and hopefully join us as well.

Senator Burns, do you have an opening statement?

Senator BURNS. I had an opening statement until my visit with you in the elevator and it was torn out.

[Laughter.]

Senator BURNS. No, I do not have an opening statement, Mr. Chairman. I just want to congratulate you and thank you for your leadership on this, because of the importance of the 7(a) program. I think we have talked about this in many areas. I have an appointment I cannot miss so I will sneak out of here, but I look forward to hearing from the administrator. I appreciate the lead you have taken on this and I, for one, understand how important this is especially to small banks and the people that have to do business in my State of Montana, and I thank you.

Senator BUMPERS. Thank you, Senator Burns.

Senator Kohl.

STATEMENT OF HON. HERB KOHL, A U.S. SENATOR FROM THE STATE OF WISCONSIN

Senator KOHL. Thank you very much, Senator Bumpers. I would like to congratulate you also on all of your work for small business, particularly this bill, S. 1274, of which, as you said, I am a cospon-

sor. It is a great way in which to use Federal funds and leverage them to have maximum bang out in the marketplace.

As a result of S. 1274, we will get twice as much leverage. We will be able to loan up to $7 billion off of the $150 million, whereas it used to be something less than half of that. So the changes that are made in this bill are very very good, and are going to result in seeing to it that we get more loans out there and help more small businesses to grow and expand their business.

I would also like to congratulate the Alan Edmonds Company which yesterday participated in a White House small business day, and was honored for their efforts and their work in growing their business. Their business has been grown with the aid of small business loans over the years, to expand their plant and equipment. They are an example of what the SBA can do to promote the growth of small business in our country, and certainly in our State. I would like to congratulate you, Mr. Bowles.

In the very short time since the disaster, already $1 million of SBA loans have taken place in Wisconsin. It shows how quickly SBA can function and operate and so on. I am really pleased to be here and happy to be a part of this hearing.

Thank you very much, Senator Bumpers.

The CHAIRMAN. Senator Kohl, I want you to know that I consider Alan Edmonds a very fine company. I happen to be wearing a pair of their shoes right now.

Paul.

Senator COVERDELL. Mr. Chairman, I am going to defer to our witnesses, other than to say, as you said when we began the 103d Congress, small business is an integral part of America's economy. I think it was Senator Bennett, a Member of this Committee, who pointed out that 70 percent of the new jobs in the last 5 years came from businesses with 1 to 19 employees. The business at hand is exceedingly important and I am anxious to hear from the administrator and other witnesses. Thank you.

The CHAIRMAN. Thank you, Senator Coverdell. Senator Lautenberg has requested that his statement be included in the record.

[The prepared statement of Senator Lautenberg follows:]

PREPARED STATEMENT OF SENATOR FRANK LAUTENBERG

Thank you, Mr. Chairman. I appreciate the opportunity to be here this afternoon and to hear from the very able new leader of the SBA.

Mr. Chairman, the central concern of this hearing is to examine ways to reduce the costs of the SBA's 7(a) loan program. You have one proposal; Mr. Bowles and the Administration have another.

But before getting into the specifics of that debate, I want to place this issue in a broader context, for I think it reveals a great deal about the current state of our government.

The 7(a) program is a one of the Federal Government's few unabashed success stories. The program provides loan guarantees so that financial institutions can lend to small business women and men who couldn't otherwise obtain credit.

These entrepreneurs use the funds as fuel to start and expand businesses—which, in turn, create jobs. In a State like mine—which lost about 300,000 jobs during the recent recession—nothing is more important.

Plus, the jobs these small businesses create are real, private sector jobs—not short-term government make-work. Government doesn't tell these risk-takers what to do or how to do it. It simply says "work hard, be innovative, and do your part to grow the econom y."

Even better, this program is cheap. With either of the subsidy plans before us, it will cost the government some $154 million to produce about $7 billion in new lending. Pumping that kind of money into the economy can create, in 1 year, upwards of 75,000 new jobs.

That means it costs the Treasury only about $5,000 for each job that is created. You don't have to be a former businessman like me to understand this fundamental economic principle: that's a bargain.

Yet I think it is crucial to place this $154 million figure in context, because it seems lately we've lost some perspective about our budget priorities.

While $154 million is indeed a big wad of money, for our gargantuan Federal Government, it's pocket change.

The $154 million will pay the interest on the national debt for about 7 hours.

The $154 million is less than what it costs the government to subsidize wool and mohair for an entire year.

The $154 million will fund the Superconducting Supercollider for about 3½ months.

The $154 million is about one-twelfth of the yearly cost of the space station.

It seems that if the 7(a) money is among the most effectively spent in government, we ought to spend more of it—and cut spending on programs that don't work or whose only purpose is satisfying some special interest.

So, the fact that we are trying to squeeze even more out of an inexpensive, successful problem—while leaving wasteful programs intact and not moving forward on other productive investments—is a further sign of the distorted vision that is plaguing Washington.

But that's where we are today. The task before this Committee is delicate. We must ensure that small businesses can get the loans they need to grow and create jobs. Yet we must not let the program burden taxpayers or expose the government to excessive risk.

I look forward to hearing the proposals to reach that delicate balance. Thank you, Mr. Chairman.

Mr. CHAIRMAN. Mr. Bowles, we are very pleased to have you with us this afternoon. We apologize for the lateness in getting this hearing started. So please proceed.

STATEMENT OF THE HON. ERSKINE B. BOWLES, ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION; ACCOMPANIED BY CHARLES HERTZBERG, ASSISTANT ADMINISTRATOR FOR FINANCE AND INVESTMENT, AND LAWRENCE ROSENBAUM, COMPTROLLER

Mr. BOWLES. Thank you very much, Mr. Chairman.

I have with me today Chuck Hertzberg, who is Assistant Administrator for Finance, and Larry Rosenbaum, who is the Comptroller of the SBA.

I would like to ask your permission, before I begin with my remarks, that my testimony in its entirety be submitted for the record.

The CHAIRMAN. So ordered.

Mr. BOWLES. And in that manner, I can just speak from these 2 pages and hopefully——

The CHAIRMAN. You will never make the Chairman of this Committee mad confining your statement to 2 pages.

[Laughter.]

Mr. BOWLES. Let me begin by telling you I appreciate the opportunity to come before you. And probably even more importantly, I want to thank you for the opportunity you have given me to serve as SBA Administrator. This is a job that for the last 75 days I have truly enjoyed. I am very comfortable in the job, but at the same time I am immensely challenged by the position itself.

I would like to tell you a little bit about the job and describe what my last week has been like, as I have tried to go about carrying out the four priorities that the President set for us last week. I had the first town hall meeting that the SBA has had, where I met with 350 owners of small businesses in West Hartford, CT. On Monday I leave for Los Angeles, where I will have a second town hall meeting where we expect to have as many as 500 owners of small businesses.

At these town hall meetings I got a chance to listen to the concerns and to the ideas of small businesses. And then since the President has given me a position on the National Economic Council, I have had a chance to report those concerns and ideas directly to the President.

After the town hall meeting, I had a chance to meet with 42 lenders that are in the Hartford and New England area. At this meeting I had a chance to talk with lenders who are community development corporations, small country banks, regional banks, as well as some major money center banks, and had a chance to talk to them about the credit crunch and the fact that small business does remain starved for capital.

Other events that have happened just in the last week are yesterday we had a chance to go out to a small grocery store in Maryland where we had a chance to meet with probably 100 to 200 owners of small businesses, and we also had a telephone conference call with—one of your constituents from Wisconsin was on there—7 cities throughout the country where, again, we had a chance to answer questions and seek input from small business.

Having had a chance to experience this job, I really feel comfortable that we are going to be able to make great headway into accomplishing the four priorities the President has set for me. Those four priorities are to make every effort to end the credit crunch. Second, to get rid of the unnecessary paperwork and bureaucratic regulations that inhibit the growth in productivity of small business. Third, to restructure, reorganize, and refocus the SBA so it becomes a more efficient, effective organization. And last, to serve as the President's eyes and ears in the small business community.

Before I turn to the 1994 budget, I would simply like to mention a couple of things in the 1993 year, if that is okay. I would like to thank you, Mr. Chairman, particularly, and the Members of the Committee, for the assistance and support and strong leadership that you gave to arranging the much-needed funding for our 7(a) program.

As you all know, you were kind enough to make available to us $175 million. That $175 million will turn into $3.2 billion worth of capital for small business that will create or maintain 310,000 jobs and it will produce taxes of $570 million.

The CHAIRMAN. Now repeat that, would you please, Erskine.

Mr. BOWLES. Yes, sir. $175 million produces $3.2 billion worth of loans which generates 310,000 jobs and which creates taxes of $570 million.

The CHAIRMAN. Over what period of time?

Mr. BOWLES. Over a 4-year period of time. That is an extraordinary return on investment in anybody's book. So I think that is

proof positive that the funding that you gave us is going to be well used for small business.

I am happy to report to you that in the first week we put out almost $1 billion of funds to capital-starved small businesses. As you also know, we also have a request in for $60 million to support $292 million in loans for disaster victims in the Midwest, including those in Wisconsin, Senator Kohl. The legislation also provides $10 million for associated administrative expenses that go along with this.

With this funding, we will have about $962 million worth of funds available to help the disaster victims. Normal fiscal 1993 needs we anticipate, above and beyond those of disaster, are about $147 million, leaving us about $815 million for the disaster victims. We feel like, at this point in time, that will be adequate funding.

Turning to the 1994 fiscal year, I would like to first address the 7(a) program, since that is the biggest portion of our operation. The proposed policy initiatives that we have recommended will provide funding necessary to both meet anticipated demand and reduce the subsidy cost. In order for us to do our part to reduce the massive Federal deficit that we have inherited, we have proposed two savings initiatives.

As you know, the first of those is to reduce the average Federal guarantee from 81 percent to 75 percent. This saves 155 basis points, $102 million in 1 year, and $437 million over 4 years for the taxpayers, and it enables us to fund an additional program of $2.6 billion.

The CHAIRMAN. Now, if I may just interrupt you—and we might as well do it now as later, Mr. Bowles—how many basis points do you say we get from going from 81 to 75 percent guarantees?

Mr. BOWLES. One hundred and fifty-five.

The CHAIRMAN. I think that is at variance with what I have, but let's go ahead and I will have staff check it.

Mr. BOWLES. Thank you, sir. The second proposal we have is the half-point fee on the sale of the guaranteed portion of a 7(a) loan in the secondary market. This saves 102 basis points. It saves the taxpayers $67 million a year, $287 million over a 4-year period, and it enables us to generate an additional program of $2 million.

Our request for the 7(a) program is $154.8 million that will generate $7.3 billion worth of loans to the small business community. That will be 28,700 loans and that will create or maintain over 700,000 jobs over a 4-year period.

I do want to mention, Mr. Chairman, your bill, Senate bill S. 1274. I have had a chance to look at it briefly, our staff has had a number of discussions with your staff about it, and I can tell you that we feel very comfortable with your proposals. They accomplish the same goal that we are trying to accomplish with our proposal.

Total savings, again, if this bill is enacted, is $169 million or $724 million over a 4-year period. As you all know, the House Appropriations Committee has provided $182 million in credit subsidy authority. Without adoption of our proposed savings initiatives or initiatives similar to the ones that you have proposed, these funds will only support a total program of $3.9 billion, far short of our expected demand of between $7.5 to $9 billion. The House Appropriations Committee felt that it was more appropriate for the

Senate and House Small Business Committees to address the specific savings initiatives which we have proposed.

I would like to plead with you, please do not approve the budget without adopting our savings initiatives, or ones similar to the ones that you have proposed. Without the additional capacity these savings initiatives give us, we will not be able to come close to meeting the demand and many small businesses will remain starved for capital.

I would now like to address our disaster lending program. The administration has decided to withdraw our proposed savings initiative for this program. We would like to propose that the Congress appropriate, on an annual basis, funds sufficient to finance the program's 10-year average level of demand, and maintain a $150 million contingency reserve.

For the total business and disaster credit program, we are requesting $321 million of credit subsidy to support a program totalling $8.8 billion. The savings initiatives that we have proposed save the taxpayers $169 million in 1994 and $724 billion over a 4-year period. Our budget also requests funding for 1994 at the same level as 1993 for authorized business assistance programs, such as our SBDC operation, our SCORE operation, our SBI operation, the PASS system, the 7(j) technical assistance program, the tree program, and we are also requesting $2.5 million for the White House Conference on Small Business.

Our budget excludes requests for all nonauthorized programs, saving the taxpayers, again, approximately $20 million and $107 over a 4-year period. Our budget shows a reduction in full-time equivalent employees of 59, excluding the disaster program where there is an 818 person reduction, and the IG program where there is a 2 person reduction. Our operating costs for all divisions, except the IG and the advocacy position, are either held flat or reduced.

In summary, Mr. Chairman, our total budget authority which we are requesting is $751 million. That is $177 million or 19 percent less than the $928 million appropriated in fiscal year 1993.

Thank you, sir.

[The prepared statement of Mr. Bowles follows:]

Prepared Statement of Erskine B. Bowles

Mr. Chairman and Members of this Committee, I appreciate the opportunity to appear before you today. Accompanying me is Lawrence Rosenbaum, my Comptroller. I am very excited to be serving as the new Administrator of the Small Business Administration. This job gives me that unite opportunity to both serve my country and, at the same time, utilize those business skills I have worked so long and hard to develop over the past 24 years.

Before I begin my testimony on budget considerations, perhaps it would be useful to lay out my vision for the Agency . . . my plans for the budget I'm seeking.

Briefly, my vision for the SBA reflects President Clinton's vision for small business. This President fully understands the absolutely critical role that small business plays in our economy. Let there be no question in your mind that President Clinton is determined to do what is necessary to help small business create the jobs this economy must have to move forward again.

President Clinton has set four priorities for me at the Small Business Administration:

> First, we must do our part to end the credit crunch. We must find ways to free up capital for investment in small businesses. Small businesses are starved for capital.

President Clinton has already taken a giant step forward in this regard by removing the unnecessary and costly restrictions on banks that prevented them from making character loans. But we must do more. Small businesses cannot grow and cannot create jobs without capital. It's as simple as that. And, with your help, we're going to do something about it.

Second, we must get rid of the unnecessary paperwork and bureaucratic regulations that inhibit the growth and productivity of small business. Government regulations have a disproportionately adverse effect on small companies. The President wants me to attack this issue head-on, and I am absolutely committed to doing that.

Third, we must restructure, reorganize and reinvigorate the SBA so that it operates in a more efficient, effective manner, and truly serves our customers—the men and women who own and operate small businesses throughout this country.

Finally, the President wants the SBA to be his eyes and ears in the small business community. I promise you the SBA will be just that. We will serve as the President's listening post, hearing the concerns and ideas of small business. In turn, I will report these concerns directly to the President, thereby ensuring that small business has a place at the economic table in the Clinton Administration.

My vision for the SBA reflects my business background. It reflects a leaner, more efficient, more effective organization that is focused . . . focused on meeting the needs of small business.

My vision also reflects an organization that champions the needs of small business at the highest levels of government, guaranteeing small business a place at the economic table.

I am very pleased that I will have a chance to work with and learn from the Members of the Committee and your staffs. I want you to know that I realize full well that I have a great deal to learn. I believe that only by listening can I learn. Therefore, I look forward to taking every opportunity to meet with you and your staffs to hear your ideas on how we can do our job better at the SBA. I am particularly excited that my arrival at the SBA coincides with budgetary planning for the coming fiscal year. It will allow us to work together to promote the health and progress of the small business community.

Now to the business at hand.

FY 1993 FUNDING

Before I address our FY 1994 submission, I would like to thank your Committee for its assistance in providing our agency the much needed funding for the General Business Guarantee Loan Program. Within the first week of receiving the supplemental funding, SBA has provided over $1 billion in new capital to the small business community. With the backlog of loans cleaned out, we are back in business providing access to capital for our small business customers. I do not anticipate any further interruptions in funding for the remainder of this FY.

As you know, we are now faced with assisting the flood victims in the Midwest through our Disaster Loan Programs. The Administration has proposed legislation that, if approved, would provide $60 million in subsidy budget authority, or $291.5 million in additional program level, both to remain available until expended. The legislation also provides an additional $10 million for associated administrative expenses.

FY 1994 BUDGET

The Small Business Administration's budget request focuses on two significant issues that confront the small business community: access to capital, and business development through procurement, counseling and training.

CREDIT PROGRAMS BUDGET REQUEST

General Business Guarantee Loan Program

For FY 1994, the proposed policy initiatives will provide the funding necessary to both meet anticipated demand and reduce subsidy costs in our General Business Loan Program. In order to do our part to help reduce the massive federal deficit, we have included two significant savings initiatives for fiscal years 1994 through 1998. The first savings initiative would reduce the federal guarantee on loans from an average of 81 percent to an average of 75 percent. This means that lenders participating in the General Business Guarantee loan program will be rehired to assume a

greater share of the risk in making loans to small businesses. Requiring lenders to assume a greater share of the risk will increase their scrutiny of potential borrowers, thereby reducing the default rate and increasing the recovery rate on repurchased loans. This initiative will save the taxpayers about $102 million in 1994.

The second savings initiative involves the secondary market. Approximately half of all General Business Guarantee loans are sold in the secondary market. We are proposing an ongoing fee of one-half percent per year on the unpaid guaranteed principal balance on all secondary market sales. These funds will be collected through our fiscal and transfer agents. This initiative will save the taxpayers about $67 million in 1994.

Although the House Appropriations Committee has provided sufficient subsidy authority to accomplish the objectives of the Administration's budget request, they felt that it was more appropriate for the Small Business Committee to address the specific savings initiatives which we have proposed. Therefore, I am concerned that if the Congress does not enact these saving initiatives, which would provide sufficient funds to meet current demand for this program, it would be necessary for me to take action to limit demand.

If the administration's initiatives are enacted, SBA will be able to provide approximately 26,000 general business loans to small companies, which currently employ an estimated 416,000 workers. Adjusting for business failures, it is estimated that approximately 318,000 jobs will be maintained by the use of these funds in our General Business Guarantee loan program. In addition, employment is predicted to grow by 101 percent between 1994 and 1998 if these initiatives are enacted, equaling approximately 321,000 new jobs. Therefore, the $6.6 billion in general business financial assistance provided to small businesses in FY 1994 will create and maintain more than 600,000 jobs during the next 4 years. However, since the time that we have submitted our budget request, more recent data has indicated that demand for this program will most likely exceed $6.6 billion.

The General Business program provides almost 90 percent of our total business lending. Our two savings initiatives for the General Business Guarantee loan program combined will save the taxpayers approximately $169 million in FY 1994 and $724 million in subsidy budget authority over the next 4 years.

Development Company Program

Mr. Chairman, I'd next like to take a look at our request for $6.2 million in loan subsidy authority to support our $907.7 million request for the Development Company Lending Program (Section 502/504 Program). The amount requested is based on expected demand in FY 1994.

Since inception, more than 600 development companies have been certified and 390 are active. Almost 16,000 loans have been approved for more than $3.8 billion. In addition to SBA assistance under this program, more than $56.5 billion in private sector investment has been made available and an estimated 327,000 jobs have been created or maintained. This program has been particularly helpful in creating jobs and employment opportunities in our rural communities. It is also a program where we get significant bang for our buck, since SBA only guarantees 40 percent of the capital going into a project.

Small Business Investment Companies

As you all know, sufficient venture capital must be made available to small businesses. Companies requiring high-risk debt capital are generally excluded from mainstream capital markets. Yet these companies are critical to the future employment base of this country. For this reason, the Congress and the SBA have devoted substantial effort toward restructuring the Agency's SBIC loan program. In this budget we are requesting $25.8 million in loan subsidy authority to support a program authority of $167.7 million. We also plan a reprogramming of regular Small Business Investment Company funding to support up to $135 million within the requested loan subsidy authority of $25.8 million for our new participating security guarantee program. This will offer small start-up businesses the kind of patient capital they need to grow and expand.

In addition, we are also requesting to retain separate funding of $5.2 million in loan subsidy authority to support a program amount of $17.9 million for a specialized, or MESBIC, guarantee program.

Disaster Lending

As you are aware Mr. Chairman, the SBA disaster program has provided a valuable service through the years and we're proud of this program. With the devastating flood in the Midwest and the necessity to provide massive assistance to those victims in the areas affected, the Administration has decided to withdraw its proposed

saving initiative for this program. Additionally, the Administration recognized the planning difficulty of a program of this nature. Therefore, in an effort to assure the uninterrupted assistance to victims of future disasters, the Administration is proposing the following. Provided that the Congress appropriates on an annual basis, sufficient subsidy authority to finance the 10 year average program level; the Administration will agree to maintain a $150 million contingency reserve. It is further proposed that the contingency reserve be replenished to its existing level in the event that funds are drawn down. Subsidy authority to replenish the reserve will be provided under the emergency provision of the Budget Enforcement Act.

SUMMARY

In summary, the total budget authority request for Business and Disaster credit programs is for credit subsidies of $321 million to support programs totalling almost $8.2 billion for the small business community.

DOLLARS IN MILLIONS

Program	1993 Availability		FY 1994 request		Difference	
	Loan supplemental authority	Program level	Loan supplemental authority	Program level	Loan supplemental authority	Program level
Direct loans	$25.7	$124.3	$21.0	$82.7	$(4.7)	$(41.6)
Guaranty loans:						
General business guaranty	197.9	3,618.0	154.8	6,589.0	(43.1)	2,971.0
Approved supplemental	175.0	3,199.3			(175.0)	(3,199.3)
502 and 504 development company	6.0	739.6	6.2	907.7	0.2	168.1
SBIC	11.1	72.3	25.8	167.7	14.7	95.4
MESBIC	5.0	17.4	5.2	17.9	0.2	0.5
Total guarantee loans	$395.0	$7,646.6	$192.0	$7,682.3	$(203.0)	$35.7
Total direct and guaranty loans	$420.7	$7,770.9	$213.0	$7,765.0	$(207.7)	$(5.9)
Disaster loans	*364.8	1,772.5	107.8	390.3	(257.0)	(1,382.2)
Total loans	$785.5	$9,543.4	$320.8	$8,155.3	$(464.7)	$(1,388.1)

*Does not include proposed supplemental of $60 million.

Surety Bond Program

We turn next to our proposal for the Surety program. This program assists small contracting firms in obtaining bid, payment, or performance surety bonds. SBA assists by providing guarantees of up to 90 percent for the losses sustained by the sureties. This program boasts a 98 percent success rate that has resulted in a net government savings estimated in excess of $1.6 billion after offsetting program losses since 1971. In FY 1992, Surety Bond Guarantees helped to create 47,000 jobs, and more than $1 billion in contracts were infused into the small business community. We are requesting $13.4 million in budget authority in FY 1994 to support a program level of almost $1.9 billion.

This compares to our FY 1993 availability of $13 million for a $1.8 billion program level.

NON-CREDIT PROGRAMS BUDGET REQUEST

Procurement Assistance

The small business community is an active participant in federal contracting. The SBA's Office of Procurement Assistance assists small businesses in this area, making sure that small companies receive their share of government procurement and sales. For example, in FY 1992, through our Natural Resource Sales Assistance Program, small business was awarded more than 1,800 individual federal timber sales, which represent more than 60 percent of the total federal timber sold. This

program assures that the small business community will receive its traditional fair share of federal timber through small business set-asides.

We assist small businesses in federal contracting through the on-site location of procurement center representatives at major government procurement installations and through the continuous monitoring of government procurement and sales activities.

The Office of Procurement Assistance also manages the Procurement Automated Sources System (PASS), which contains data on approximately 250,000 small firms. This information is used by procurement officials and large prime contractors to locate qualified small businesses. The office also issues Certificates of Competency (COC), which document a firm's ability to perform certain functions under government contracts.

We estimate a savings of more than $295 million in FY 1994 from the increased competition provided by the Breakout and COC programs. These programs are expected to save the federal government $250 million and $45 million, respectively. From an expected procurement expenditure of $160 billion in FY 1994, we will establish a goal at a minimum of $32 billion in prime contracts for small business. The Prime Contracts program will achieve this by monitoring and managing the traditional procurement center representatives and breakout programs. An estimated total of at least $10.7 billion will be set aside for competition by small businesses, only, in FY 1994. In addition to prime contracting opportunities, SBA also assists small businesses with subcontracting opportunities. Through the efforts of our commercial market representatives working with the major prime contractors, it is estimated that small businesses will receive subcontracting awards in excess of $20 billion in FY 1994.

Minority Small Business and Capital Ownership Development

As you know, the SBA has a long and successful history of promoting opportunities for minority business owners, and with the implementation of Public Law 100-656, SBA has renewed its commitment to the minority and disadvantaged small business community. This commitment reaches beyond the traditional programs operated by the Office of Minority Small Business and Capital Ownership Development (MSB/COD) to our financial, investment and special programs. We want to ensure that minority and disadvantaged firms are always considered in the administration of our basic programs. We are committed to minority economic empowerment.

In FY 1992, SBA approved almost 3,700 loans valued at more than $820 million to minorities. Additionally, our education and training programs counseled more than 74,000 minority entrepreneurs and trained almost 81,000 minority attendees. Consultants in the 7(J) Program counseled approximately 2,800 firms, and we are requesting $8.1 million in FY 1994 to continue this program. The 8(A) Program awarded 4,690 contracts worth over $4.3 billion in fiscal year 1992.

Business Development

We also have a wide array of business development programs that promote the establishment, growth, and vitality of small businesses through technical support, effective training and counseling programs, and efficient allocation of resources. Briefly, Mr. Chairman, let me run through a description of these initiatives.

Our Office of Women's Business Ownership provides support, counseling, and services to women-owned small businesses. This sector represents 32 percent of all small businesses and historically has been under represented in federal programs and activities. Women-owned businesses now employ more people than the entire Fortune 500. Women-owned businesses are expected to account for 40 percent of all small businesses by the end of this decade. When we expand SBA outreach to these businesses, we increase their economic impact. Our FY 1994 request includes $401,000 to support the Women's Business Council and $1.5 million to continue implementation of the Women's Demonstration Project program. One of our goals during 1994 is to find ways to be more helpful to women-owned businesses. For FY 1994, we are also requesting $792,000 to provide for salary and related expenses to support the program.

We are also promoting international trade opportunities for small business through outreach, counseling, and training. The Office of International Trade (OIT), in conjunction with field offices, other program offices, and public and private trade groups, will continue to develop and implement trade activities targeting specific industries and markets. Expenditures for this outreach program are forecast at $481,000 for FY 1994. Additionally, we are requesting $1.4 million in salary and related expenses to support the program. OIT supports increased use of the export revolving line of credit for the international trade loan program. As part of the Gener-

al Business Guarantee program, we estimate that loans for international trade businesses will amount to $320 million in FY 1994 as compared to $290 million in FY 1993.

The Office of Business Initiatives, Education and Training (BIET) administers SBA's Service Corps of Retired Executives (SCORE), which has provided free counseling and low-cost training programs to hundreds of thousands of entrepreneurs. More than 13,000 volunteers serve at 378 chapters and 500 branches across the country. We are requesting $3.1 million for this program in FY 1994 which is the same level available in FY 1993.

Another program administered by BIET is our Small Business Institute (SBI) program, which operates on more than 500 college campuses. Through the SBIs, students supervised by instructors provide management consulting to small businesses. We are requesting $2.9 million for this program in FY 1994 compared to $3.0 million in FY 1993. In addition to the program outreach efforts for BIET, we are requesting $18.1 million in salary and related expenses for FY 1994.

Small Business Development Centers (SBDC)

We also have the Small Business Development Center (SBDC) program, designed to assist small businesses by linking Federal, State and local governments with the private sector to provide management and technical assistance to the small business community. Today, the SBDC program has a network of 57 lead centers located in 50 States and approximately 750 sub-centers and satellite locations. We are requesting $67 million for this program in FY 1994 which is the same level appropriated in FY 1993. In addition to the SBDC grants, we are requesting $1.0 million in salary and related expenses to support the program for FY 1994.

Small Business Innovation and Research (SBIR)

During FY 1994, there will be a continued strong emphasis on assuring a high rate of commercialization of SBIR innovations. This important goal reflects a key provision of P.L. 102–564 and activities will be guided by the findings of the multi-year commercialization study and program experience and the emphasis of dual use innovations.

The overall direction of maintaining a strong public awareness effort will be continued to assure effectiveness at reaching potentially eligible small firms, particularly those owned and managed by persons from under represented groups or geographical areas. The FY 1994 budget is predicted on phased patterns of legislated growth. To support the SBIR effort for FY 1994, we are requesting $1.1 million for salary and related costs which is approximately the same level available for FY 1993.

Advocacy

The Small Business Administration is the only source of detailed information on small business contributions to the economy. Data on small business is gathered through a small business data base and through a contract research program targeted to examining contributions and barriers facing small businesses. This information is vital to policy development and is used in many ways to obtain and present a clear picture of the small business community. The data provides the foundation for the Advocacy Office's efforts to represent small business views throughout the government and Congress and to reduce regulatory burdens.

SBA's Office of Advocacy is responsible for gathering data on small businesses and maintaining the small business data base. The development and maintenance of this system has been the office's major economic research project and imposes no paperwork burden to the business community. Instead, Advocacy utilizes private sources and interagency agreements with federal statistical agencies, such as the Internal Revenue Service, the Bureau of Labor Statistics, and the Bureau of the Census. The amount requested for Advocacy, to support the program, is requested at $5.2 million for FY 1994, which is approximately the same amount provided in FY 1993.

In addition, SBA is requesting $2.5 million in FY 1994 for the White House Conference on Small Business which is the same level provided in FY 1993. The conference will increase public awareness of the essential economic contributions of small business, identify small business needs, examine the status of minorities and women as small business owners, and assist small business in carrying out its role as the nation's job creator. The conference will assemble small businesses to develop such specific and comprehensive recommendations for executive and legislative action as may be appropriate for maintaining and encouraging the economic viability of small business and, thereby, the Nation.

UNAUTHORIZED PROJECTS

Finally, our request for non-credit programs excludes funding of all unauthorized projects that were earmarked in last year's appropriation act. We estimate that this would save $20 million in FY 1994 and $107 million over the next 5 years.

MANAGEMENT INITIATIVES

Mr. Chairman, during the past 2 years our loan activity has grown dramatically. In FY 1992, our General Business Guarantee program grew 37 percent, a pace that has continued for the first half of FY 1993. The subsequent increase in the SBA's portfolio value means we have an even greater need for oversight to assure that the assets of the agency are well managed. This is consistent with my clearly stated goal of running an efficient, effective, well managed agency.

We have also forecasted a reduction in employment in each department of the agency reducing total full-time equivalents by 59 positions, excluding Disaster Assistance and the Inspector General office, which are forecasted to be reduced by 818 and 2 full-time equivalents, respectively. Operating costs of the Small Business Administration are also forecast to be reduced in FY 1994 by a total of $2.6 million. Non-Credit Program costs, as well as Disaster Assistance costs, are now forecast be reduced substantially, while the cost for the Inspector General is expected to increase by $1.2 million.

	Dollars in Millions			Full-time equivalents		
	1993	1994	Difference	1993	1994	Difference
Finance, investment and process	$100.6	$98.2	$(2.4)	1,848.9	1,821.2	(27.7)
Business development	22.8	22.7	(0.1)	433.4	426.8	(6.6)
CFO/management and administration	86.2	86.7	0.5	429.8	423.3	(6.5)
Executive direction and field administration	40.2	40.0	(0.2)	722.5	710.9	(11.6)
Other	26.3	25.9	(0.4)	438.4	431.8	(6.6)
Total operating expenses	$276.1	$273.5	$(2.6)	3,873.0	3,814.0	(59.0)
Non-credit programs cost	*$146.7	$112.9	$(33.8)			
Disaster assistance	137.6	20.9	(116.7)	1,900.0	1,082.0	(818.0)
Inspector General	8.3	9.5	1.2	108.0	106.0	(2.0)
Total operating costs	$568.7	$416.8	$(151.9)	5,881.0	5,002.0	(879.0)

*Does not include proposed supplemental of $10 million to support proposed additional Disaster appropriation.

In order to support the Administrations's efforts to stimulate the economy through the small business sector, and to address the urgent need to reduce the cost of federal programs for FY 1994, we are requesting total budget authority of $751 million, 19 percent below the $928 million appropriated for FY 1993.

I would be happy to answer any questions the Committee may have.

The CHAIRMAN. Thank you very much, Mr. Bowles.

Now, let me ask you this. If we adopt S. 1274, the bill I introduced yesterday, before we leave here in August—let's say that it becomes law and the President signs it by August 10, say. What impact will that have on your increased loan authority on the 7(a) program between now and October 1, or between August 10 and October 1?

Mr. BOWLES. Mr. Chairman, I have looked at it from August 6 to October 1. And if, in fact, we could put those provisions to work immediately, it would change our ability. It would increase it; it would almost double it. It would take it from $1.6 billion to about $3.2 billion, so it would almost double our capacity.

I do not, however, think that we could put it into effect immediately. I think it would take us some period of time to get the mechanism set up.

The CHAIRMAN. The figure you are giving me is assuming you could put it in place the minute the President signed it.

Mr. BOWLES. Yes, sir.

The CHAIRMAN. Okay. Now on the guarantee——

Mr. BOWLES. And, of course, we would make every effort to do it as quickly as possible.

The CHAIRMAN. Yes, of course.

In your statement a while ago—and I keep saying this because I want every Member of the Senate to finally understand what we are talking about when we talk about the 7(a) program especially being the biggest generator of jobs for the least amount of money that the United States Congress can pass. Now, you know, I squealed like a pig under a gate during all of the first part of this year about the fact that the 7(a) program was going to be shut down. I used all those job figures that you and others use. And, you know, you sort of get a ho-hum, nobody really pays attention.

To me it is so dramatic and so compelling that I do not understand how anybody in the Senate could have ever voted against at least that part of the stimulus package, knowing that the 7(a) program was going to be shut down. But in any event, I assume that the figures you used are the same ones I used. And who was it, Price Waterhouse? Were those Price Waterhouse figures? Are they the same figures you are talking about?

Mr. BOWLES. Yes, sir. Those are Price Waterhouse's numbers.

The CHAIRMAN. You stated that $175 million would produce $3.2 billion in 7(a) loans.

Mr. BOWLES. Yes, sir.

The CHAIRMAN. That, in turn, over a 4-year period results in 310,000 new jobs.

Mr. BOWLES. Yes, sir.

The CHAIRMAN. And that those companies who borrowed that $3.2 billion, which only cost $175 million in actual taxpayer money, would return to the Treasury over the same period of time roughly three times that amount of money, or $570 million.

Mr. BOWLES. Yes, sir. The return on investment is truly phenomenal in this. And if you really want to look at it on a cost per job, then you would take the $175 million, which is what it would cost us, and you divide that by the 310,000 jobs. And I think you would find it at a cost of about $564 a job. That is a pretty good investment, I think.

The CHAIRMAN. How much?

Mr. BOWLES. $564 a job.

The CHAIRMAN. Would you be interested in knowing what each job on the super collider and the space station costs?

Mr. BOWLES. I would. I do not know.

The CHAIRMAN. Exactly 200 times that much. Do not get me started. I do not want to get started. Senator Bennett says he is always amazed how Senator Bumpers can change any subject to mining law. And, of course, that is the way I feel about the collider and the space station too.

But anyway, this is the question I really wanted to ask you: is the $570 million in new taxes money that the companies who borrow under the 7(a) loan program will return to the Treasury over a 4-year period? That does not include the taxes that those 310,000 employees would pay, does it?

Mr. BOWLES. I think that is right, yes, sir.

The CHAIRMAN. So, you know, conceivably we are talking about maybe twice that much being returned to the Treasury. And as I say, you would think that everybody in the Senate would just jump through themselves at the thought of being able to produce jobs like this at a cost of $574, and ultimately the payback would by far more than offset even that small amount.

On the subsidy rate, we will try to stay in touch with you, Mr. Bowles, and your staff, if you feel it necessary to mickey with the figures in my bill on cutting the subsidy rate. Now we have, as I said in my opening statement, actually cut it lower than the President's request. We are down to, I think, 2.2 I said. And you mentioned a moment ago that is by decreasing the guarantee—and right now the Government's guarantee is 81 percent, right?

Mr. BOWLES. On average, yes, sir.

The CHAIRMAN. If we cut that to 75 percent, you said we would save how many basis points?

Mr. BOWLES. One hundred and fifty-five basis points.

The CHAIRMAN. Now, my next question was: To get to 155 basis points, is it not also necessary to reduce real estate loans to 70 percent?

Mr. BOWLES. Yes, sir. Ours takes the loans of less than $155,000 from 90 percent to 80 percent. It takes those over $155,000 from 85 percent to 80 percent. It takes our PLP loans from 80 percent to 75 percent, and the real estate loans to 70 percent. And that gives you the 155 basis points.

The CHAIRMAN. Do you agree with the approach we are taking here that what we are proposing would essentially have to be eaten by the lender and not the borrower?

Mr. BOWLES. Mr. Chairman, I do think that some of the costs, in all probability, will be passed along to the borrower. I think that will just happen. I do not think all of the costs would be passed along to the borrower by any stretch of the imagination, but I do think that the borrower will have to take part of the cost increase.

I can give you some information, though, that you might find interesting. If we were to, as an example, increase the up-front fee by 1 percent on an average loan, say, of $250,000, that average loan has a monthly payment of $2,728. And a 1 percent increase in the up-front fee only increases that monthly payment by $22. So that kind of gives you, if the entire cost was passed along, that is the kind of order of magnitude.

The CHAIRMAN. Now, aside from precisely what we are talking about here, Mr. Bowles—I want to get this off my chest—I have said before, and all of us have a tendency to deal in personal anecdotes and make that—we deal with a lot of issues based on our personal experiences in the area, and paperwork is one of my favorites. And so many times when we try to pass a paperwork reduction bill around here, the truth of the matter is, if it passed it would generate more paperwork.

But I do want to say that I am feeling stronger and stronger about the regulations on S&Ls and banks, and if they are not regulations, then they are doing some things that seem awfully strange to me. But, because I have an immense respect for you, and you come to this job so strongly recommended based on your own personal appearance before the Committee, and also your background, I must tell you that the complaint that we receive more than anything else about the SBA is that the paperwork is a terrible burden.

What I was about to say when I initially started this soliloquy was that there was a time when I needed an SBA loan so badly, and travelled to Little Rock to talk to the people there about it. I left there with so many forms to fill out, and I did not have money to hire accountants and lawyers, and so I just chucked it. I just could not afford to do it.

I had a man call me yesterday afternoon telling me that somebody came to his place and said, you need to do something about your smoke emissions. He said, well, what is wrong? And they said, well, we do not know, but you need a permit. And they left him with about three-quarters of an inch of paperwork. He had to hire somebody to fill out the papers. It cost that small businessman $2,400.

And I am reluctant to even tell you this, but my son came by the other night and said he had refinanced his house to get a lower loan rate. Everybody is doing it. And he said it was going to save him $300 a month. He is obviously much wealthier than his father.

[Laughter.]

The CHAIRMAN. But, anyway.

Mr. BOWLES. He must be a lawyer.

[Laughter.]

The CHAIRMAN. He is. As a matter of fact, I am a part of the problem Dan Quayle was talking about. I have three children, all of whom are lawyers, and one is married to a lawyer. And I am speaking against my own interest here.

So I called my loan company yesterday and they said, oh, yes, they would be tickled to death. They would go from 8.5 percent to 7 percent. I told my secretary, I said, you call them back and tell them I will come by and sign up in the morning. She comes back and says, it is not quite that easy.

[Laughter.]

The CHAIRMAN. I said, it is not? She said, no.

I said, why is it not?

She said, well, they have to have a credit report. They have to have an appraisal. You have to pay a lawyer $300 to represent you at settlement. And it all comes to $1,700. And you save $90 a month on your payments. And I said, well, there goes the first 2 years savings. She said, yes, that is right.

Now, this company who wants a credit report on me has drawn a draft on my account the first day of every month for 17 years, and they want a credit report. I am not blaming them. I suspect the Federal Government requires them to do that, the regulations require them to do that.

Number two, they want an appraisal. And I do not mind telling them I paid $115,000 for that house 17 years ago, and we have

made a lot of improvements. It is probably worth $300,000 to $500,000 now, and I owe $65,000 on it. But they want an appraisal which is going to cost me $500.

Now, I am telling you, I am going to do my very best to stop that kind of nonsense. I might not have been so interested in the issue if I had not just been subjected to the ludicrousness of this myself. I am probably going to wind up having to pay the $1,700, because I am going to refinance someplace.

Now, I could go to the bank probably and, on a signature note, get the $65,000 or whatever it is and just pay it off. But I am reluctant to do that, too.

All I am saying is, this country is out of control on this kind of stuff. It is out of control when you go into a doctor's office. It is out of control when you go into a lawyer's office. It is out of control when you apply for an SBA loan.

I am looking to you, Mr. Bowles, and I know you well enough to know you share my views precisely on everything I have just said.

Mr. BOWLES. Mr. Chairman, I do, and so does our President.

As you well know, one of the two charges I have received from the President is to make every effort to attack those Government regulations that have a disproportionately adverse effect on small business, those Government regulations that inhibit the growth and productivity of small business. And I assure you that that is exactly what we intend to do.

We have two laws on the books right now. What we must do is enforce them. One is the Regulatory Flexibility Act and the other is the Paperwork Reduction Act. We are going to use those laws for the betterment of small business.

As it relates to the 7(a) loan program and the difficulty of obtaining one with the paperwork involved, we plead guilty, absolutely guilty. It is much too difficult. It is much too hard. It is much too cumbersome.

Now, we recognize the problem. What are we doing about it?

Right now, we are meeting with lenders throughout the country trying to get input from the real world to tell us how we can redesign these programs so they can be more user friendly. Once we have had a chance to receive this input, we then plan to meet with someone, like Robert Morris Associates, and come up with a form that is much more user friendly.

I hope a year from now, when your people come to you and talk to you about getting an SBA loan, they can tell you that it is reasonable. That is what we are aiming for. I agree with you 100 percent.

The CHAIRMAN. I thank you very much. That is a wonderful response and one I knew I would get.

Now, Mr. Bowles, let me ask you one other question. Several of us wrote a letter to Leon Panetta and Secretary Aspin asking for an immediate transfer of $75 million, which was appropriated for 1993 under an authorization to transfer funds from DOD to SBA for defense economic conversion loans. And they wrote back and said, thank you very much for your correspondence.

[Laughter.]

The CHAIRMAN. Now, have you heard anything from them about it, or have you or your staff done anything about trying to pursue that?

Mr. BOWLES. As you know, Mr. Chairman, I got on the scene late. I have only been here 75 days. There have been some other people at the trough a little bit earlier than I was. Since the day I arrived, I have tried to get some of this money for small business and tried to get some of this money for the 7(a) programs, so that we could turn it into loans for small business, to create jobs and create employment opportunities.

I believe I am safe in telling you that the Commerce Department and the Defense Department beat me to these dollars, and the dollars are already gone.

Now, I think they are going to be used pretty wisely at the Commerce Department. My best guess is that they are going to be used for the manufacturing extension programs which target small businesses. But I believe that money is gone and that you will receive a letter explaining about it in the not-too-distant future.

The CHAIRMAN. One final question. Are we going to have enough 504 money to last the rest of this fiscal year?

Mr. BOWLES. Yes, sir. We have an authorization ceiling of $744 million. We have reprogrammed some money so that we can get up to that authorization ceiling. We have asked permission to raise the ceiling this year to $900 million.

The CHAIRMAN. That is a part of our bill.

Mr. BOWLES. And we have asked permission to reprogram some additional funds out of our existing funds. We do not need any new funds, we just want to reprogram some funds from some other areas and we will have enough funds to meet the demand. That is also an excellent program for small business.

The CHAIRMAN. It is, indeed.

Senator Coverdell.

Senator COVERDELL. Well, first, Mr. Chairman, I went through the same exercise on the refinancing of my home.

The CHAIRMAN. Did you get the same treatment I got?

Senator COVERDELL. Oh, I got the same indication, but I ducked it a little sooner. I had entered into a personal financial arrangement with the former owner. And when I got the size of the regulatory requirements to get it refinanced and moved to a bank, it was so onerous that I got creative with the original owner and we worked out another arrangement to both our satisfactions. But the requirements were just simply so onerous as to discourage you from doing it, and they are mostly Federally required. It is our own doing.

The CHAIRMAN. Senator Coverdell, you know I hate to expose all of my personal life, but Betty and I have one of those marriages where what is hers is hers and what is mine is ours.

[Laughter.]

Senator COVERDELL. I am familiar with that.

The CHAIRMAN. She inherited money from her father, which she has safely set aside in her name. She has suggested that she pay the house off and that I pay her a monthly payment.

[Laughter.]

The CHAIRMAN. Because 7 percent is about twice what she is making on CD's. And I said that probably would bring the IRS in,

then. Because I would be deducting interest I paid to her and, on a joint return, turning right around and putting it back in. Somebody would say, now, what is this all about, and you could not explain it to save your life. So I just told her that no, we are not going to get into that.

Senator COVERDELL. I tell you what, though, it is a pretty good idea. I might be interested in talking to her.

[Laughter.]

The CHAIRMAN. Well, she would probably be interested in talking to you.

[Laughter.]

Mr. BOWLES. Mr. Chairman, I am no longer in the investment banking business, but I think we have the makings of a deal here.

[Laughter.]

Senator COVERDELL. If I might, I have just a couple of questions.

One, Mr. Bowles, you indicated that you were the eyes and ears of small business for the President and that you have had one town hall meeting and you plan another.

Mr. BOWLES. We have eight in total set up.

Senator COVERDELL. I would be interested, if you had to name four things that they told you in these meetings, and you could probably almost predict what you are going to hear at the other eight meetings, what would they be?

Mr. BOWLES. I was actually surprised at the one I heard the most. I expected to hear taxes. I expected to hear the economic plan. I expected to hear health care. The number one complaint over and over again was Government regulations, without any exception.

Now, as you two well know, there is a great Southern saying, "One robin doesn't make a spring." And I have only been to one of these town hall meetings, and we do have seven more left to go, but clearly, the number one thing they talk about was Government regulations.

Number two was availability of credit. Small businesses are truly starved for capital. Let there be no question about it.

Three, health care.

And, four, taxes.

Those are the four things that small businesses talked about consistently.

Senator COVERDELL. I appreciate that.

Mr. Bowles, when you and I met during your confirmation process we discussed the 503 loan program, its termination in deference to 504, and the obstacle to refinancing, and the onerous penalty payment to get out of 503. The question at the time was whether or not it could be administratively addressed or not, whether it was reasonable to address it or not.

Certainly, from what I have heard, there is a reasonable complaint about the inability to fairly refinance that. Have you had a chance to look into this matter, and have you formed any conclusions with regard to our discussion?

Mr. BOWLES. My opinion has not changed from the original one that I expressed privately with you in your office. I do believe that this prepayment penalty on the 503 program is unfair. Let there be no question about that.

I am in discussions currently with the Treasury and with OMB, and we are working hard to come up with a solution. I hope we will reach a solution some time in the very near future, but we have not at this point in time reached a conclusion.

Senator COVERDELL. I wonder if the Chairman, with regard to his legislation, might take under advisement, in any event, as to whether or not your legislation would facilitate this issue? Because we are talking about relief to a sizable number of small businesses. That may not be practical, but it may be a vehicle to look at this problem if it cannot be dealt with administratively.

I just pass that on as a suggestion.

Mr. Chairman, I have no further questions at the moment. I appreciate the opportunity to visit about these matters. It is interesting to see how much in concert so many people are about this, and I hope it will continue to be that way as we proceed.

The CHAIRMAN. One final question, Mr. Bowles. When is the new security for SBIC going to be available?

Mr. BOWLES. Mr. Chairman, I signed the regulations about 3 weeks ago and sent them to OMB. And I am not as familiar with the time process. Perhaps, Larry, you know how long it takes to get through OMB and then published in the Federal Register.

Mr. ROSENBAUM. Mr. Chairman, you are probably looking at another 2 to 3 more weeks at OMB at least. Probably by the end of this month or early into next month.

The CHAIRMAN. Before it will actually be ready?

Mr. ROSENBAUM. Yes.

The CHAIRMAN. I think that is it, Mr. Bowles.

We had another matter that I think we were supposed to discuss after this hearing.

Senator Pressler has some questions he wishes to submit in writing, and we will submit those to you, and you can get that back to us at your earliest opportunity.

[The information referred to follows:]

U.S. SMALL BUSINESS ADMINISTRATION,
WASHINGTON, DC 20416,
September 1, 1993.

HONORABLE DALE BUMPERS,
Chairman,
Small Business Committee,
United States Senate,
Washington, DC 20510.

DEAR MR. CHAIRMAN. Thank you for your very kind letter of July 27 in which you enclosed questions from three Members of the Committee to follow up on the Committee's hearing on SBA's FY 1994 budget proposal.

Enclosed are my responses to those questions. Please contact me if there are any further questions or if there is any additional information that Senators may need.

It is a pleasure to work with you and the Members of the Committee.

Sincerely,

ERSKINE B. BOWLES,
Administrator.

RESPONSES TO QUESTIONS FROM SENATOR BOND

Question 1. Some Missouri small businesses—particularly agriculture-related businesses—have expressed concern about the paperwork burden involved in applying for SBA loans. Businessmen have recalled that, after the 1986 flood (which has been dwarfed by comparison to this one), they were required to fill out a great number of forms—many more than those required by commercial lenders. Can you tell me what steps, if any, have been taken to minimize the paperwork burden for the flood victims, bearing in mind that the flood may have destroyed the supporting documentation for a loan? If no measures have been taken, can you think of any ways the SBA could address this problem?

Answer. One of the top priorities I have set for the SBA is to make our entire operation, including disaster assistance, more user friendly. I have ordered a review of all SBA's procedures and processes with a view to making them more efficient and effective. This review is in process and significant steps have been taken to shorten the process and make it more applicant friendly. I have strongly emphasized my commitment to this process. At my instructions, the goal for loan processing for disaster loans has been reduced from the previous 30–45 days to 7–20 days. I am pleased to report that through August 15, 1993, we have approved over 3,000 loans (746 in Missouri) for more than $75.8 million ($23.2 million in Missouri) in response to the Midwest flood disaster. The approval rate for Missouri is 64 percent and we are well within the processing time-frame goal.

Our disaster assistance is in the form of loans, and before a loan can be approved the agency must be reasonably assured that the loan can be repaid out of earnings (or cash flow) of the individual or business borrower. The information requested in the disaster loan application is the same information that any reasonably prudent lender would require to make necessary credit determinations and to satisfy statutory requirements. As a lender in disaster situations, we must balance the interests of speed and compassion for victims, on the one hand, with the cost to the Government and the safety of taxpayers' funds, on the other.

Wherever possible, we maintain disaster workshops at the disaster site to help applicants complete their applications using one-on-one counseling. Generally, we make extensive use of locally-based volunteers to provide this assistance. Similar assistance is available for businesses, using local professional resources and the Missouri Small Business Development Center. In addition, after a loan is approved, we have on site loan closing offices to speed up that portion of the process. The staff in each of the workshops is aware of the problems of destroyed records and is able to recommend alternate methods of providing the necessary information. Our staff will work with disaster victims to help provide all possible assistance.

Question 2. If small business owners had outstanding loans before the flood, but their businesses were wiped out by the flood—that is, the collateral that they pledged for the first loan has been destroyed—can they add to the loan they already have to get back on their feet? In short, if a small business owner's first loan was not from a commercial lending institution, will the SBA be willing to work with him just as if it had been? If not, why not? And will obtaining a second loan affect the treatment of the first loan in any way?

Answer. The disaster loan program consists of direct loans by SBA, not guarantees of loans made by commercial lending institutions. Prior debts of businesses, whether to commercial lending institutions or not, have to be taken into account to determine whether there is a reasonable ability of the business to repay additional debt out of its earnings and cash flow. If repayment ability is reasonably assured, the existence of pre-disaster debt is not a deterrent to making a disaster loan.

In most disaster loan instances, the victim has pre-disaster debt and SBA's collateral position is subordinated to the pre-existing debt. In fact, there is no requirement for a fixed amount of collateral. As a prudent lender, SBA does take whatever collateral is available to secure its debt, but loans will not be refused merely because there is insufficient collateral to fully secure the debt. Our experience has shown that there are many varieties of pre-disaster debt that may be encountered in a disaster situation. Our staff is aware of this possibility and is prepared to be as flexible as possible within our statutory authority.

Responses to Questions From Senator Pressler

Question 1. I think I speak for Members on both sides of the aisle when I ask about SBA's practice of classifying all 7(a) loans of longer than 10 years as "real estate" loans regardless of the purpose for which the loans were made. The agency's methods of defining real estate loans, thus, is misleading. It needs to be improved. What would be required by the SBA to change the classification system and produce more reliable data.

Answer. SBA has not really classified all loans with a maturity exceeding 10 years as real estate loans. SBA has simply been unable to identify real estate loans from centralized computer records. Since the question had not previously been raised, the system was not designed to provide this breakdown. It is possible to identify real estate loans on a case by case basis from information in the case file.

We are now developing a means to be able to identify real estate loans as they are entered in the computer. We expect this will be available for loans made in FY 1994 and subsequently.

Question 2. In comparing the President's proposals for reforming the 7(a) Guaranteed Loan Program with options introduced by Senator Bumpers, which do you prefer?

Answer. The administration's proposals were prepared before I arrived at SBA. I have had extensive discussions with the National Economic Council and at OMB, and have made it clear that I prefer the proposals submitted by Senator Bumpers to those submitted by the Administration.

Question 3. I come from the State of South Dakota in which the vast majority of banks are small banks. The secondary market is used largely by small banks that need added liquidity. With this in mind, would not a ½ percent fee on the declining balance on those loans sold in the secondary market serve as a penalty toward small banks—the ones that can least afford such a penalty?

Answer. That argument has been made. However, there is also a viewpoint that secondary market sales increase the lenders' profit, so that placing this fee on such sales is justified. Generally, however, the lending industry has felt the across-the-board fee would be more equitable.

Question 4. With the popularity and the need for the 7(a) loan program both skyrocketing, why is the Administration proposing an almost 40 percent funding cut for next year?

Answer. The proposed appropriations for Fiscal Year 1994 must be looked at in conjunction with the Administration's proposed changes to the 7(a) program which will greatly lower the credit subsidy rate. The proposed policy initiatives will provide funding sufficient to both meet anticipated demand and to reduce subsidy costs in the 7(a) program, thus doing our part to reduce the massive federal deficit. If the Administration's policy initiatives were enacted, our credit subsidy request of $154.8 million would support $6.6 billion in guarantee authority for the 7(a) program.

Question 5. The President is asking for a $25.8 million authorization for the SBIC program next year. You have testified before this Committee that you anticipate the number of participants in the program to increase because of new reforms. Will $25.8 million be enough for the SBIC program or will you be back here in 9 months asking for a supplemental appropriation?

Answer. The President's FY 1994 budget includes a $25.8 million appropriations request to provide $167.7 million in guarantee authority for regular SBIC debentures and the new participating securities. I have testified that we expect to license

a number of SBICs over the next 18 months and they will expect leverage within 6 months to 1 year after licensing.

The proposed regulations implementing Title IV of P.L. 102-366 were published for public comment on August 5, 1993 and we expect they will be finalized in the fall. We do not anticipate using the guarantee authority for participating securities until mid-FY 1994. We expect the demand for leverage to begin increasing in the second quarter of FY 1994 and to dramatically increase in FY 1995. This demand will depend on the rate of license approvals and the rate that these licensees provide financing to small concerns.

We believe that the $25.8 million will be adequate for FY 1994 if we are able to revise the subsidy rate downward for the program. We believe that a case can be made for this action because of the structural changes made in the program, improved licensing standards and improved program administration.

Because the restructured SBIC program is really a new program, we are not in a position at this time to predict the amount of program authority that will be needed in FY 1995. We believe that additional appropriations will be needed in FY 1995 and we will address the need when it can be quantified.

Question 6. A history of the SBA's disaster relief over the past 10 years shows that SBA funneled a great deal of aid to victims of hurricane disasters and earthquakes. Mr. Bowles, I would like to commend your agency for its swift and efficient action in meeting the needs of the victims of what is being called the Great Flood of 1993. However, a member of my staff recently encountered a South Dakota man in need of disaster relief assistance concerning a separate and unrelated crisis. After being discouraged by the significant paperwork and bureaucracy involved, he decided to go through a commercial lender rather than through the SBA. I know that we are in agreement when it comes to the reduction of bureaucratic burdens.

A. Have you had reports of this happening in other states?

B. What can be done to alleviate this problem?

Answer. SBA disaster assistance is in the form of loans, and before a loan can be approved the agency must be reasonably assured that the loan can be repaid out of the earnings (or cash flow) of the individual or business borrower. The information requested in the disaster loan application is the same information that any reasonably prudent lender would require to make necessary credit determinations and to satisfy statutory requirements.

For example, the law provides for maximum interest rates of either 4 or 8 percent on disaster loans, based on the ability of the applicant to secure credit elsewhere. This determination will vary based on the amount of the damage, the insurance recovery, the income (or cash flow) of the individual or business (and its affiliates) and their assets available for use for recovery purposes. To make this determination, we have to receive information about all of these items. Incidentally, the law also provides that the maximum loan term for businesses that can secure credit elsewhere is limited to 3 years. At this time, more than 95 percent of the disaster loans approved are to borrowers that cannot secure credit elsewhere.

We have not had reports of this happening in other states. For businesses that cannot secure credit elsewhere, the 4 percent interest rate and terms of up to 30 years has been very attractive. For businesses that can secure credit elsewhere, the interest rate and 3 year maximum term may be singularly unattractive, and commercial lenders may be able to offer more attractive loan terms. Disaster loans are subsidized loans; every dollar loaned adds to the Federal deficit. Generally, we would encourage disaster victims to rely on commercial sources of financial assistance if the terms offered are as good as those offered by SBA's disaster program.

For your information, for this fiscal year, through August 16, 1993, SBA had approved 51,236 disaster loans (36,928 home and 14,308 business) for $1.437 billion ($756 million for homes and $681 million for businesses). With regard to the current Midwest floods, South Dakota was declared a major disaster by the President on July 19, 1993, with the Disaster Application Centers opening some days later. Through August 16, 1993, SBA has approved 237 disaster loans (210 home and 27 business) for $5.8 million ($4.9 million for homes and $866 thousand for businesses).

I have ordered a review of all SBA's procedures and processes, including those of the disaster assistance program, with a view to making them more effective and efficient. This review is in process and significant steps have been taken to shorten the process and make it more applicant friendly. I have strongly stated my commitment to continuing this progress.

Question 7. I believe one of the most burdensome provisions in the tax bill is the Administration's so-called "SINC" proposal, otherwise known as the "Service Industry Non-Compliance" initiative. The New York Times has called this provision a

"Blizzard of Paperwork." In the Senate, I offered an amendment to strip this provision from the bill, which eventually was unanimously adopted after a tabling motion failed 0-98.

This new paperwork requirement would require businesses to file a 1099 form with the IRS if more than $600 in services are purchased from a corporate service provider during the tax year—services like hotels, airline tickets, taxi fares, and even service contracts for Xerox machine repair.

The Joint Tax Committee has estimated enacting this proposal will bring in $411 million over 5 years. It is absolutely unreasonable to heap millions of hours of paperwork burden on the small business community to bring in around $80 million per year to the Federal Treasury.

The Tax Executives Institute, a well-respected bipartisan tax organization, has said "there is a strong possibility that the cost to the payer community would exceed the revenues flowing to the Treasury."

There are also significant questions about whether or not the IRS is actually capable of processing and using the millions of new 1099 forms the SINC initiative would generate. I am now sending a letter to the Budget Conferees urging them to accept the Senate's actions on this and remove this burdensome paperwork provision on small business from the Reconciliation bill.

As the spokesperson for small business in the Administration, can you do anything to help us prevent this flood of paperwork from hitting America's job creators?

Answer. The purpose of the Service Industry Non-Compliance (SINC) initiative was to close the "tax gap" by identifying corporations that fail to report all or portions of their taxable income. In order to accomplish this goal, the SINC initiative would have increased reporting requirements for both small and large corporations. This provision was eliminated from the budget reconciliation bill during conference, consistent with the Senate's action.

One of my priorities as Administrator is the elimination of unnecessary government regulation and paperwork. I will continue to look for alternatives to ease reporting requirements and collection of information burdens on small entities.

Question 8. You have stated the President wants you and the SBA to be his eyes and ears in the small business community. Could you tell me what issues were discussed at your last several meetings with President Clinton?

Answer. The President and I have discussed on a number of occasions the President's priorities for me at the SBA. He has charged me with doing our part to end the credit crunch; to reduce regulation and unnecessary paperwork; and to restructure, reorganize and reinvigorate the agency. Finally, as you noted, he has charged me with being his eyes and ears in the small business community. I am actively pursuing that goal by hosting a series of town hall meetings across the country at which I am getting the views of small business owners and small business lenders. When this series of meetings has been completed, I look forward to reporting on them to the President.

Responses to Questions From Senator Kohl

Congratulations and thanks to Administrator Bowles for the SBA's excellent work in two areas:

1) quick and coordinated response with FEMA to the floods in the Mississippi Valley;

2) processing the 10-week backlog of 7(a) loan applications in just 1 week after President Clinton approved the supplemental appropriation (SBA was unable to give me numbers on this—they are still compiling information from district offices—however, through June, they had processed 17,507 applications).

Question 1. Administrator Bowles, you are the Administration's chief advocate for small business. As such, what is your opinion of the budget reconciliation bill passed by the Senate? Is the House version better?

Answer. I believe the compromise worked out between the House and Senate which led to passage of the final budget bill is the essential first step in the President's plans to strengthen our Nation's economy and reduce the federal deficit.

Question 2. This spring, I had the opportunity to spend part of a day in the SBA's state office in Madison, WI. It was about a week before your confirmation and the SBA employees sent me away with a few messages. First, that the district staff is concerned that their business expertise is under appreciated by both local businesses and SBA's Washington office. Second, that SBA needs to decentralize and get

more staff into the district offices. You have told me before that you agree with these goals. How does the FY 1994 budget respond to these needs, and can you give me some details about your future plans for decentralizing the agency?

Answer. It is too early in my tenure to give you a definitive answer, because we are still in the process of doing a management review. I can tell you for certain that we are planning some reorganizing, and are working to identify additional areas for savings in the agency's operations budget. Possibilities for savings may include setting up administrative loan servicing centers and reassigning staff from the central and regional offices to the district Offices. My management philosophy is to push our resources down to the field where our small business customers are.

Follow-up to question 2. If we are able to double the size of the 7(a) loan program, will you be able to get more personnel out to district offices sooner rather than later, so that we do not run into a backlog of loan applications?

Answer. As I have previously stated, I believe that SBA should have more of its personnel in the field where our programs are delivered. To that end we are now devising a plan which is intended to accomplish that result. I will be glad to share that plan with you as soon as it is finalized.

Question 3. Every year, small businesses find it harder and harder to afford health insurance. Until we manage to enact health care reform, what can SBA do to help small business owners find affordable health insurance? Have you planned workshops of other advocacy programs?

Answer. The SBA's Office of Advocacy has been a major contributor of both data and ideas to the health care debate during the last decade. Advocacy helped refine many of the issues being discussed by the Administration and has provided a unique perspective to the on-going deliberations on the health care problems faced by small employers and their workers and families.

Advocacy's Office of Economic Research has commissioned six studies since 1980 examining health care and small business. This is the most extensive research of its kind in the federal government and has been a basic reference in public and private efforts to measure the health care problem and develop reform proposals. A current SBA Health Benefits Survey, which builds upon a 1987 survey, is presently at the Office of Management and Budget (OMB) for approval.

Question 4. The Women's Business Ownership Act of 1988 authorized SBA grants to private organizations that provide management and technical assistance for women-owned small businesses. This was a demonstration project, however, and it expired in September 1991. Given the benefits of expanding business opportunities to American women, do you believe should this project be renewed? How can SBA best respond to the unique challenges which face women entrepreneurs?

Answer. The Women's Business Ownership Act of 1988 was reauthorized with passage of the Women's Business Development Act of 1991. This Act renewed the demonstration project for 4 additional years. I believe the demonstration program should be continued. Over 15,000 women have received training and counseling at 38 sites throughout the country. Although the funding level of the program is very low, a great deal of assistance has been provided through this public/private partnership.

SBA is positioning to respond in a number of ways to the unique challenges which face women entrepreneurs. Access to capital for all entrepreneurs is one of my priorities. SBA's Office of Women's Business Ownership (OWBO) sponsors "Access to Capital" conferences throughout the country; markets the SBA loan guarantee programs, including the Small Loan Program which targets small businesses searching for $50,000 or less, and the microloan program; and has developed a list of "Alternative Financing Sources" for distribution to women business owners who are seeking new sources of capital.

The OWBO has a national mentoring program, the Women's Network for Entrepreneurial Training (WNET), available in all 50 states. Additionally, this office assists women business owners interested in the global marketplace and selling to the federal government.

It will be an exciting challenge to develop additional resources to assist women business owners. By the year 2000, we expect that nearly half of U.S. companies will be owned by women.

Question 5. I know that Chairman Greenspan yesterday declared the "credit crunch" as officially over. Nevertheless, we have partly blamed overzealous regulation of banks for the difficulty small businesses have had in obtaining loans. Does stricter government oversight of its own loan guarantee programs reduce access to capital in the same way as does bank regulation? If not, why not?

Answer. There has been some concern expressed that the 7(a) program proposals by both the Administration and Senator Bumpers would reduce capital availability by forcing banks to more closely scrutinize borrowers. That is a concern I have spent a great deal of time examining.

It is in maintaining availability of credit that I think the Senate proposal is superior to that of the Administration. While the Administration proposal would have reduced the government guaranteed percentage of all 7(a) loans, the Bumpers proposal protects small borrowers by keeping the guarantee at the current rate for loans of less than $155 thousand. These small borrowers are those that have been most affected by the credit crunch.

Senator BUMPERS. Thank you all for being with us today. Our next witness is Mr. Anthony R. Wilkinson, National Association of Government Guaranteed Lenders, Stillwater, OK.

Tony, your entire statement will be admitted into the record. If you could summarize, that will be of help to us.

STATEMENT OF ANTHONY R. WILKINSON, NATIONAL ASSOCIATION OF GOVERNMENT-GUARANTEED LENDERS, STILLWATER, OK

Mr. WILKINSON. Thank you, Mr. Chairman. I appreciate the opportunity to come before this Committee and discuss the SBA loan programs of the administration's budget request for next year.

First, let me start by saying a big thank-you to you and your staff, particularly John Ball and Patty Forbes and to all the Members of the Senate that co-sponsored your legislation, and for all your efforts in obtaining the supplemental funding for the 7(a) program this year. The small business community can access their number one source of long-term capital because of your efforts.

I think I will follow a page from Senator Burns and throw my notes away and basically comment on what I have heard thus far. Two or three times I have heard that small business remains starved for capital and that one of the number one priorities of this administration for small business is to end the credit crunch. We have got an excellent program that is working quite well and making strides to end that credit crunch.

I want to commend the SBA for all their efforts during the past few years to expand a very workable program that provides lots of bang for the buck for the taxpayer dollar. But what I heard this afternoon were comments that seemed to give the impression that by cutting the subsidy it will have no impact whatsoever on the borrower or lender.

It is my opinion that the subsidy rate probably is already as low as it needs to go, and in fact we should be searching out ways to expand loans into the small business sector rather than searching for ways to contract the amount of capital flowing through. The fact of the matter is, in my opinion, that these changes will have a negative impact on the flow of capital to small business.

I think that small business has been dealt somewhat of an unfair hand. If you look at where this program level has been and where it is projected to go, from the outset the appropriations simply have not followed through, and I do not see other Federal agencies taking the kinds of hits that the 7(a) program is being asked to take.

The current program this year—with an appropriation of $366 million cut down to $154 million next year—will experience a

pretty severe cut and this is a program that is providing such benefit to this country.

With that in mind, I believe that we can do our fair share to help with deficit reduction, but I think that the program structural changes that have been proposed have gone somewhat too far.

In my opinion, the SBA loan programs have been very well managed. These programs have leveled out the playing field for smaller companies by providing them the same access to affordable long-term credit enjoyed by larger corporations, extended at a minimum Federal cost and a minimum of interference in the free market system.

NAGGL commends the Committee for its past support of the SBA's loan programs and we urge increased support now as the small business sector plays a most important role in these economic times.

We must find ways to encourage the entrepreneurial spirit, encourage people to go into business and create jobs, develop technology, employ people, and generate tax revenues. Restricting small businesses' access to capital, or raising the cost of capital, will be counterproductive.

I have been working with Committee staff, and I will continue to do so in finding what changes can be made on a fair and equitable basis.

Mr. Chairman, I would be happy to answer any questions you might have.

[The prepared statement of Mr. Wilkinson follows:]

PREPARED STATEMENT OF ANTHONY R. WILKINSON

Mr. Chairman and other Members of the Committee, my name is Tony Wilkinson. I am President of the National Association of Government Guaranteed Lenders, Inc., commonly known as NAGGL. NAGGL represents those members of the lending community who are active participants in the SBA 7(a) loan program. NAGGL's membership accounts for approximately 70 percent of all the SBA 7(a) loans that are approved annually.

Prior to accepting my current position with NAGGL, I spent 13 years with a commercial bank where my primary responsibility was managing the bank's SBA loan department. I have seen first hand how valuable the SBA loan programs are to small businesses, lenders and local communities.

I appreciate the opportunity to again come before the Committee and discuss the SBA 7(a) loan program and the Administration's budget request for fiscal year 1994. This hearing provides an opportunity to highlight the SBA, which through its loan programs, provides vital access to capital for our nation's small businesses.

NAGGL is disappointed that the Administration's budget request outlines proposals that serve only to heighten the effects of the credit crunch on the small business sector. The budget request has two line items of particular concern to the 7(a) lending community:

(1) A decrease in the 7(a) average guaranty percentage to 75 percent from 81 percent, and

(2) Collection of a secondary market fee of .5 percent per annum.

The proposed reduction in guaranty percentages is a proposal we have seen many times from previous administrations. Thanks to the efforts of this Committee, those proposals have been rejected in the past, and I hope this proposal will also be rejected. Reductions in the guaranty percentage will simply serve to reduce capital availability to small business. Banks and other lenders simply have limited resources that can be placed in a portfolio of long-term loans, the kinds of loans needed by small businesses. Assuming a 90 percentage guaranty, a lender with $1,000,000 in funds available for long-term loans, can leverage that into $10,000,000 in guaranteed loans through the SBA. Reducing the guaranty percentage to 80 percent, reduces the leveraged pool of funds to $5,000,000, and a reduction to a 75 percent guaranty

would reduce the leveraged pool of funds to $4,000,000. As you can see, a reduction in the guaranty percentage leads to a reduction in the availability of long-term loan funds. Under this scenario, many worthy small business borrowers would not have access to needed long-term financing, again heightening the effects of the credit crunch on small business.

The budget proposal indicates the guaranty percentage decrease would lead to better lender scrutiny, lower defaults and lower loan losses. I strongly believe that the SBA loss rate is already sufficiently low (2.1 percent for fiscal year 1992). The proposed reductions in the guaranty percentage would only serve to exclude otherwise worthy borrowers from obtaining credit, and would disproportionately impact smaller lending institutions. NAGGL urges this Committee to oppose any effort to decrease the guaranty percentage.

The second budgetary initiative of collecting an on-going user fee of .5 percent per annum runs contrary to the reason the secondary market was established. The secondary market for SBA loans has proven to be an excellent vehicle for small businesses to access capital markets, yet the budget proposal would serve to penalize borrowers and lenders who would access it. Ironically, while Members of Congress search for ways to expand secondary market capital accessibility for small business, the Administration has brought forth a proposal that could constrict a secondary market that is working quite well. It is the active lenders who need liquidity, those lenders who are getting capital into the hands of small business.

Evidently, it is the belief of some that lenders are "getting rich" on secondary market sales. To check these assumptions, I compared the gross income derived from an average $250,000 SBA loan, made for the average 12 years, with the average 81 percent and sold into the secondary market at the average price, versus a comparable size loan held in portfolio. Please understand that a lender derives income from one of two ways: either collecting the interest income over time or selling the loan and collecting fees. In the case of an SBA loan, it is a combination of interest income on the unguaranteed/retained piece plus fees on the guaranteed/sold piece.

My calculation found that the net present value of the gross income stream on the SBA loan fell far short of the net present value on the portfolio loan ($39,310 vs. $56,986). This calculation verifies why only one-half of the loans originated each year are sold into the secondary market. Many lenders simply cannot fund long-term loans from their short-term deposit base. The secondary market, as intended, provides lenders with access to liquidity, rather than providing a get-rich-quick scheme. If that were the case, one symptom would be a much higher loan sale rate than 50 percent.

Another concern I have heard is that the bulk of SBA loans are made at the legal maximum rate of prime plus 2.75 percent. This is simply not the case. For fiscal year 1992, according to the SBA, only 26 percent of the loans were made at an interest rate of prime plus 2.5 to prime plus 2.75 percent. The average loan interest rate last year was prime plus 2 percent, with 11 percent of the loans being made at fixed rates of interest, and an additional 40 percent of the loans being made at prime plus 2 percent or less. The fact is that the bulk of SBA loans are made at rates less than the maximum interest rate of prime plus 2.75 percent. The next question would then be: How much would the average interest rate increase to the borrower should the proposed structural changes be enacted?

Before any action is taken on structural changes to the program, I would suggest that the subsidy calculations be carefully reviewed. In conversations with the staffs of this Committee and the House Committee on Small Business, it is clear that there is much confusion as to what subsidy reductions occur under various scenarios. Also, some of the structural changes that are being considered would create a substantial administrative burden. With all of the "assumptions" that are used to calculate the subsidy rate, I am concerned that we could be over-estimating the needed appropriations, which in turn, unjustly penalizes the borrowers and lenders.

The two proposed budget initiatives would supposedly reduce the subsidy rate for the SBA 7(a) program from 4.92 percent to 2.35 percent, or a 52 percent decrease in the subsidy rate. Couple with that a reduction in appropriation dollars from $366 million to $155 million, or a 58 percent decrease. These proposals would translate into a significant increase in the cost of the program to borrowers and lenders. If we are trying to foster growth in the small business sector, why are we proposing to raise the cost of obtaining capital for small business? It would be in the best interests of the Administration, borrowers and lenders if the subsidy model was first refined, and then consider modifications only alter there has been a careful study of the impacts that would occur from the proposed structural changes.

The 1994 budget requests only a $155 million appropriation for the SBA 7(a) loan program. The Administration supported H.R. 2118, the supplemental appropriations bill that recently passed. That bill added $175 million in appropriations, to the $191 million already used this year, to support lending for the last 5 months of this fiscal year, taking total loan authority for the year to $6.9 billion. I find it contradictory that the Administration would support the supplemental appropriation while proposing an almost 60 percent appropriation cut for next year. I also find it contradictory that the Administration forecasts a decline in SBA 7(a) lending, something that has not occurred in many years. (Please note that gross loan volume is up 88 percent over the last 3 years, and is projected to increase another 23 percent this fiscal year.)

The Administration's budget request has only addressed the outlay side of the equation. Where is the discussion about the revenues these small business borrowers create? Any good business decision is based upon a cost-benefit analysis, not just a cost analysis. If the government's analysis were to include the payroll, individual and corporate tax revenues generated by SBA borrowers, you would find that the benefits created by this program more than justify its costs. From Exhibit 1-8 in last years' Price Waterhouse study, please note that in the one year of 1989, the sample group paid tax payments of $356,914,000. The total multi-year cost of the 1985 program was only $270,841,000. In 1 year, the borrowers had paid enough tax payments to cover the full cost of the program plus provide a 32 percent return on investment. Clearly, if we do not provide the needed capital to these entrepreneurial small businesses, these tax revenues could go away. That means the so-called "outlay savings" will actually increase the federal deficit.

The Administration has also failed to calculate the income and tax effect that the proposal would have on financial institutions. For example, let's look at the Charlotte State Bank in Port Charlotte, FL, a small bank that originated approximately $7.5 million last year in SBA 7(a) loans. Had the Administrations budget proposal been in place last year, the banks' revenues in their SBA operation would have decreased by 36 percent, their federal income taxes paid would have decreased 64 percent, and the number of loans the bank would have been able to make would have declined. This bank, as many others, absorbs some or all of the borrowers guaranty fee, appraisal fees and/or other loan closing costs. Rest assured that if the banks' revenues are cut 36 percent they will look for other ways to recoup the loss, i.e., higher interest rates, discontinue paying the guaranty fee, etc.

Ironically, the Administration's budget proposal that is supposedly designed to save money for the government, will, in my opinion, lead to larger budget deficits as small businesses will find it increasingly difficult to finance their operations. The government coffers would lose some $60 million from reduction in lender income taxes plus the lost tax revenues from those small businesses that could not start, expand or grow because they could not find financing. Borrowers looking for smaller loans, loans that are typically more risky and more expensive, will find themselves squeezed out of the program, as lenders naturally fund those loans (with limited SBA resources) that are the easiest to complete and that are the most cost effective. Smaller banks will be hit disproportionately harder with the changes. With all of the foregoing in mind, NAGGL urges this Committee to strongly oppose the Administration's proposed structural changes to the program that would serve to further restrict capital availability to small businesses and increase the federal deficit.

NAGGL continues to receive frequent requests for information about the 7(a) program from lenders throughout the country. Lenders continue to dedicate additional resources to improving their SBA programs. Needless to say, the budget request undermines all these efforts to appropriately finance small business. The $155 million 7(a) budget proposal simply will not provide enough loan authority, under any program structure, to meet next years anticipated demand by the Nation's small businesses.

Earlier this year the Administration, in conjunction with the federal banking regulators, unveiled a program of regulatory and administrative changes that are to help the flow of credit to smaller enterprises. These new guidelines allow well-managed and adequately capitalized institutions to create a pool of loan funds of up to 20 percent of their total capital, and these loans would require only minimal documentation. Unfortunately, this program is not of the magnitude needed by small business, and does not match the effectiveness of the current SBA 7(a) program. From the Interagency Initiative/SBA Portfolio Comparison that accompanies this testimony, please notice that the amount of funds in a lenders "interagency loan pool" correlates to, on average, approximately 2 percent of their loan portfolios. And not every financial institution is eligible to participate. Rather than generating new loans to small business, the bankers I spoke with see this as a safety outlet to re-

classify those performing loans, already on their books, that have been previously criticized by the bank regulators.

On the same schedule, please notice the impact that the SBA program has on these financial institutions. The portfolios are larger than the "interagency pool" would provide, and the SBA portfolios are not arbitrarily capped. In my opinion, funding the SBA program will be significantly more beneficial to the small business sector.

The good news for the small business sector has been the availability of credit through the SBA's loan programs. Lenders and small business borrowers are turning to the SBA in increasing numbers, as the SBA's 7(a) and 504 loan programs are virtually the only sources of long-term financing for small business. Through the first half of FY 1993, loan volume in these two programs was up 30 percent over the same period in FY 1992. And the increase in demand is expected to continue throughout the rest of this fiscal year.

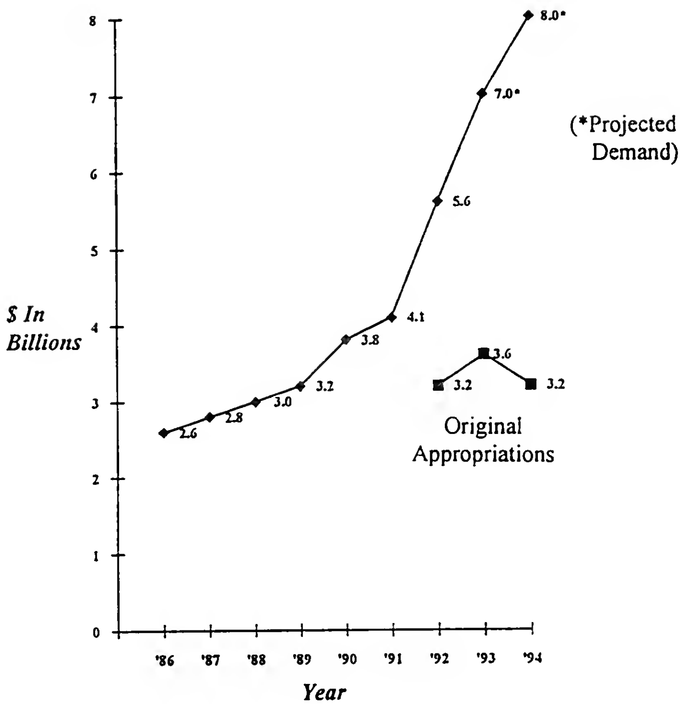
In my opinion, the SBA loan programs are well managed. These programs level out the playing field for smaller companies by providing them the same access to affordable, long-term credit enjoyed by larger corporations. This is done at a minimum up-front federal cost and at a minimum of interference in the free market system. NAGGL commends the Committee for its past support of the SBA and its loan programs, and we urge increased support now as the small business sector plays a most important role in these economic times. We must find ways to encourage the entrepreneurial spirit, encourage people to go into business and create jobs, develop technology, employ people and generate tax revenues. Restricting small businesses access to capital or raising the cost of capital would be counterproductive.

On behalf of the Directors, all the members of NAGGL and the small business borrowers we serve, I thank you for this opportunity to again come before this Committee. Mr. Chairman, NAGGL pledges its active cooperation in working with you and the Committee on Small Business financing issues.

NAGGL

The National Association of Government Guaranteed Lenders, Inc.

SBA 7(a) Loan Volume



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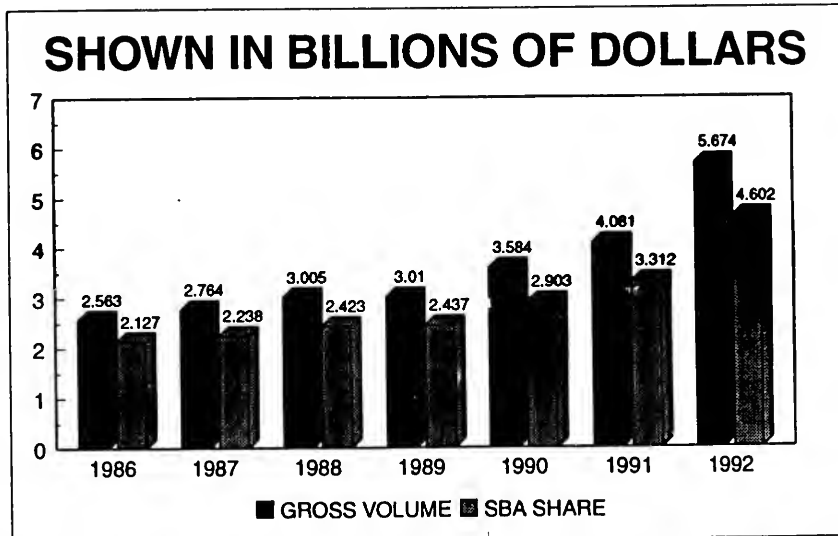
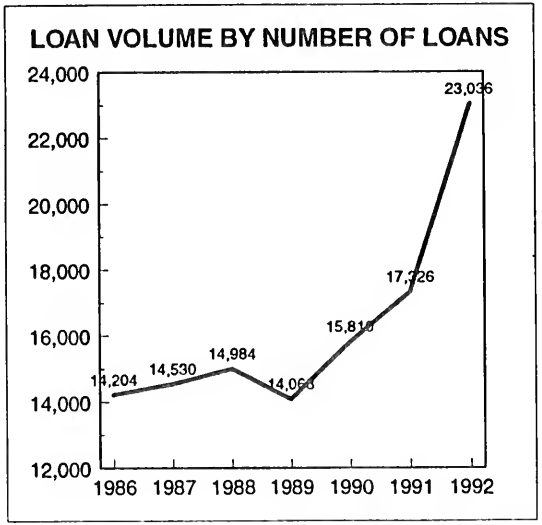
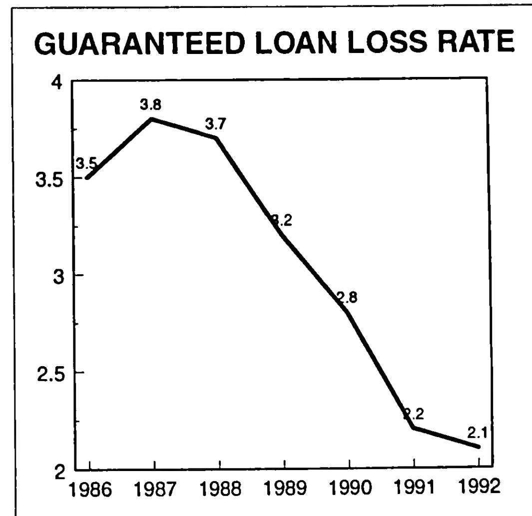
THE SBA HAS BEEN INCREASING VOLUME

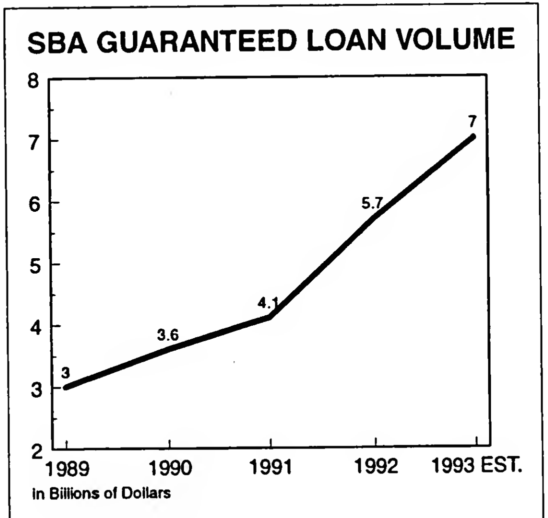


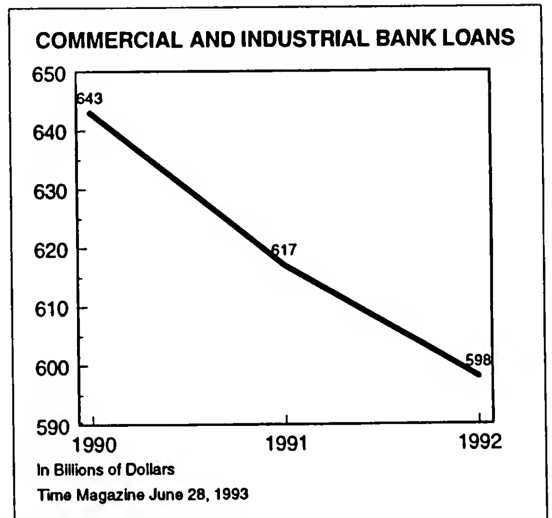
LOAN QUALITY HAS IMPROVED WHILE VOLUME INCREASES





SBA LOANS HAVE BEEN GROWING WHILE BANK BUSINESS LENDING IS ON A DECLINE





3. How successful are former 7(a) loan recipients? (Continued)

Exhibit I-8

Economic Activity of 1985 SBA Loan Recipients

Activity	1985 Dollars
Estimated 1989 Total Sales Revenues[1]	$7,156,453,000
Estimated 1989 Combined Payroll and Profits[1]	$2,117,078,000
Estimated 1989 Tax Payments[1]	$356,914,000
Total Multi-Year Cost of 1985 Program with 1 Percent Fee	$290,768,000
Total Multi-Year Cost of 1985 Program with 2 Percent Fee	$270,841,000

Exhibit I-8 summarizes the results of our analysis of three indicators of the economic activity of SBA loan recipients. Estimates of economic activity were made for a single year only, 1989; are stated in 1985 dollars; and are reduced to reflect the fact that other sources of financing were used by and available to 1985 loan recipients[1]. For example, the total estimated 1989 sales revenues of 1985 SBA loan recipients, reduced to consider other financing, was $7,156,453,000 in 1985 dollars.

The above estimated levels of economic activity <u>cannot</u> be attributed directly to the 7(a) program because, among other reasons, we cannot assess how well these firms would have done if they had not received the loan. Nonetheless, these results do confirm that SBA loan recipients benefitted from the program and provide an indication of the direct and indirect benefits in terms of revenues, payroll and profits, and taxes paid by loan recipients.

Exhibit I-8 also presents the estimated net cost of operating the 1985 program, taking into account the costs incurred in 1985 and later for making and servicing 1985 loans, purchasing 1985 delinquent loans, and liquidating purchased 1985 loans. This estimate is intended to identify the total multi-year cost of operating the program for one year of loan approvals and is not intended to serve as an evaluation of the financial operations of the program. A fee of one percent of the guaranteed amount was imposed on borrowers in 1985. The current fee is 2 percent.

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[1]All estimates are reduced to take into consideration the facts that the 1985 loan was a portion of the firms' 1985 capital base, and that some firms thought they could have obtained financing on the same terms elsewhere. See Chapter IV, Section I and Appendix N.

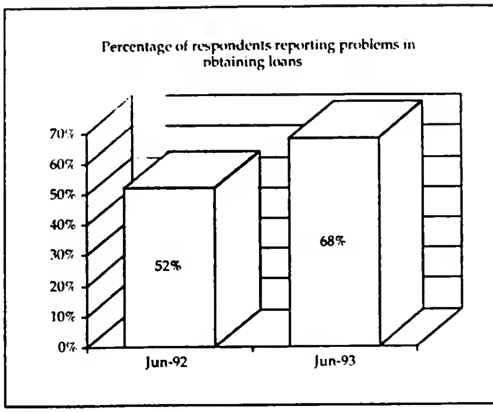
Interagency Initiative/SBA Portfolio Comparison

Institution	* $ Capital	20% Interagency Pool	* $ Loan Portfolio	Interagency Portfolio Impact %	$ SBA Portfolio	SBA Portfolio Impact %
Stillwater National Bank Stillwater, OK	21	4.2	262	1.6	28	10.7
American Bank of Commerce Wolfforth, TX	8	1.6	68	2.4	11	16.2
First National Bank Olathe, KS	13	2.6	84	3.1	25	29.8
Guardian State Bank Salt Lake City, UT	5	1.0	34	2.9	56	164.7
United Bank of Michigan Grand Rapids, MI	8	1.6	76	2.1	47	61.8
Sacramento Commercial Bank Sacramento, CA	8	1.6	92	1.7	120	130.4
United New Mexico Bank Las Cruces, NM	3.5	.7	42	1.7	29	69.0

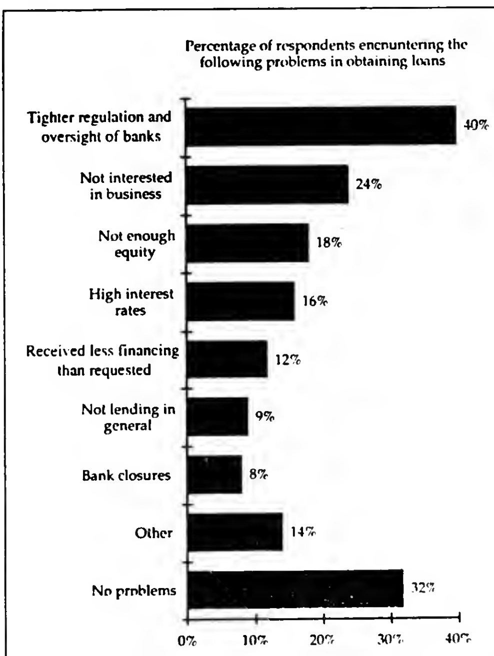
*Source: Polk Bank Directory

$ in millions

More Problems than Last Year
The banking climate appears to have grown more problematic in the past year. An increased number of small and mid-sized businesses report problems in obtaining bank loans.



Problems Getting a Bank Loan
Respondents cite tighter regulations and oversight of banks as the most common problems they encountered when trying to obtain a bank loan or line of credit.



NAGGL--Net present value of SBA loan cash flow--sale for premium

Loan Amount:	$250,000	Term:	144 months
Payment amt:	2,706.13	Int rate:	8.00%
Guaranteed amt (81%):	$202,500	Premium:	9.00%

Mo	Ending Principal Balance	Sold Balance (@ 81%)	Interest Spread (1)	Serv. Fee (2)
0	250,000.00	202,500.00		
1	248,960.54	201,658.03	178.13	168.75
2	247,914.14	200,810.45	177.38	168.05
3	246,860.77	199,957.22	176.64	167.34
4	245,800.38	199,098.31	175.89	166.63
5	244,732.91	198,233.66	175.13	165.92
6	243,658.34	197,363.25	174.37	165.19
7	242,576.59	196,487.04	173.61	164.47
8	241,487.64	195,604.99	172.84	163.74
9	240,391.43	194,717.05	172.06	163.00
10	239,287.90	193,823.20	171.28	162.26
11	238,177.02	192,923.39	170.49	161.52
12	237,058.74	192,017.58	169.70	160.77
13	235,933.00	191,105.73	168.90	160.01
14	234,799.76	190,187.80	168.10	159.25
15	233,658.96	189,263.75	167.29	158.49
[illegible]	232,510.55	188,333.55	166.48	157.72
[illegible]7	231,354.49	187,397.14	165.66	156.94
18	230,190.72	186,454.48	164.84	156.16
19	229,019.19	185,505.55	164.01	155.38
20	227,839.86	184,550.28	163.18	154.59
21	226,652.66	183,588.65	162.34	153.79
22	225,457.55	182,620.61	161.49	152.99
23	224,254.46	181,646.12	160.64	152.18
24	223,043.36	180,665.12	159.78	151.37
25	221,824.19	179,677.59	158.92	150.55
26	220,596.88	178,683.48	158.05	149.73
27	219,361.40	177,682.73	157.18	148.90
28	218,117.68	176,675.32	156.29	148.07
29	216,865.66	175,661.19	155.41	147.23
30	215,605.30	174,640.29	154.52	146.38
31	214,336.54	173,612.60	153.62	145.53
32	213,059.32	172,578.05	152.71	144.68
33	211,773.58	171,536.60	151.80	143.82
34	210,479.27	170,488.21	150.89	142.95
35	209,176.34	169,432.83	149.97	142.07
36	207,864.71	168,370.42	149.04	141.19
37	206,544.35	167,300.92	148.10	140.31
38	205,215.18	166,224.30	147.16	139.42
39	203,877.15	165,140.49	146.22	138.52
40	202,530.20	164,049.46	145.26	137.62
[illegible]	201,174.27	162,951.16	144.30	136.71
[illegible]	199,809.30	161,845.53	143.34	135.79
43	198,435.23	160,732.54	142.36	134.87
44	197,052.00	159,612.12	141.39	133.94

Net present value (3) of interest spread over life of loan	$10,827
Net present value of 1% servicing fee over life of loan	10,257
Premium received from sale of guaranteed portion of loan	18,225

Total present value of cash flows	$39,310
	======

(1) Interest spread based on cost of funds at 3.5%.

(2) Servicing fee based on 1% (annualized) of sold balance.

(3) Net present values calculated based on discount rate of 8.0%, the note rate.

45	195,659.55	158,484.23	140.40	133.01
46	194,257.81	157,348.83	139.41	132.07
7	192,846.73	156,205.85	138.41	131.12
8	191,426.25	155,055.26	137.40	130.17
49	189,996.29	153,897.00	136.39	129.21
50	188,556.80	152,731.01	135.37	128.25
51	187,107.72	151,557.25	134.35	127.28
52	185,648.97	150,375.66	133.31	126.30
53	184,180.50	149,186.20	132.27	125.31
54	182,702.24	147,988.81	131.23	124.32
55	181,214.12	146,783.44	130.18	123.32
56	179,716.08	145,570.03	129.12	122.32
57	178,208.06	144,348.53	128.05	121.31
58	176,689.98	143,118.88	126.97	120.29
59	175,161.78	141,881.04	125.89	119.27
60	173,623.39	140,634.95	124.80	118.23
61	172,074.75	139,380.55	123.71	117.20
62	170,515.79	138,117.79	122.60	116.15
63	168,946.43	136,846.61	121.49	115.10
64	167,366.60	135,566.95	120.37	114.04
65	165,776.25	134,278.76	119.25	112.97
66	164,175.29	132,981.99	118.12	111.90
67	162,563.66	131,676.57	116.97	110.82
68	160,941.29	130,362.45	115.83	109.73
69	159,308.10	129,039.56	114.67	108.64
70	157,664.02	127,707.86	113.51	107.53
71	156,008.99	126,367.28	112.34	106.42
2	154,342.91	125,017.76	111.16	105.31
3	152,665.74	123,659.25	109.97	104.18
74	150,977.38	122,291.67	108.77	103.05
75	149,277.76	120,914.99	107.57	101.91
76	147,566.81	119,529.12	106.36	100.76
77	145,844.46	118,134.01	105.14	99.61
78	144,110.63	116,729.61	103.91	98.45
79	142,365.23	115,315.84	102.68	97.27
80	140,608.20	113,892.64	101.44	96.10
81	138,839.46	112,459.96	100.18	94.91
82	137,058.92	111,017.73	98.92	93.72
83	135,266.52	109,565.88	97.65	92.51
84	133,462.16	108,104.35	96.38	91.30
85	131,645.78	106,633.08	95.09	90.09
86	129,817.29	105,152.00	93.80	88.86
87	127,976.60	103,661.05	92.49	87.63
88	126,123.65	102,160.16	91.18	86.38
89	124,258.34	100,649.26	89.86	85.13
90	122,380.60	99,128.29	88.53	83.87
91	120,490.34	97,597.18	87.20	82.61
92	118,587.48	96,055.86	85.85	81.33
93	116,671.93	94,504.26	84.49	80.05
94	114,743.61	92,942.32	83.13	78.75
95	112,802.44	91,369.97	81.75	77.45
96	110,848.32	89,787.14	80.37	76.14
[illegible]	108,881.18	88,193.75	78.98	74.82
	106,900.92	86,589.75	77.58	73.49
99	104,907.46	84,975.05	76.17	72.16
100	102,900.71	83,349.58	74.75	70.81

101	100,880.59	81,713.28	73.32	69.46
102	98,846.99	80,066.06	71.88	68.09
3	96,799.84	78,407.87	70.43	66.72
4	94,739.04	76,738.62	68.97	65.34
105	92,664.51	75,058.25	67.50	63.95
106	90,576.14	73,366.67	66.02	62.55
107	88,473.85	71,663.82	64.54	61.14
108	86,357.54	69,949.61	63.04	59.72
109	84,227.13	68,223.97	61.53	58.29
110	82,082.51	66,486.83	60.01	56.85
111	79,923.59	64,738.11	58.48	55.41
112	77,750.29	62,977.73	56.95	53.95
113	75,562.49	61,205.62	55.40	52.48
114	73,360.11	59,421.69	53.84	51.00
115	71,143.04	57,625.87	52.27	49.52
116	68,911.20	55,818.07	50.69	48.02
117	66,664.48	53,998.23	49.10	46.52
118	64,402.78	52,166.25	47.50	45.00
119	62,126.00	50,322.06	45.89	43.47
120	59,834.04	48,465.57	44.26	41.94
121	57,526.80	46,596.71	42.63	40.39
122	55,204.18	44,715.39	40.99	38.83
123	52,866.08	42,821.52	39.33	37.26
124	50,512.39	40,915.03	37.67	35.68
125	48,143.00	38,995.83	35.99	34.10
126	45,757.83	37,063.84	34.30	32.50
127	43,356.75	35,118.96	32.60	30.89
8	40,939.66	33,161.12	30.89	29.27
9	38,506.46	31,190.23	29.17	27.63
130	36,057.04	29,206.20	27.44	25.99
131	33,591.29	27,208.94	25.69	24.34
132	31,109.10	25,198.37	23.93	22.67
133	28,610.36	23,174.39	22.17	21.00
134	26,094.96	21,136.92	20.38	19.31
135	23,562.80	19,085.87	18.59	17.61
136	21,013.75	17,021.14	16.79	15.90
137	18,447.71	14,942.65	14.97	14.18
138	15,864.57	12,850.30	13.14	12.45
139	13,264.20	10,744.00	11.30	10.71
140	10,646.49	8,623.66	9.45	8.95
141	8,011.34	6,489.19	7.59	7.19
142	5,358.62	4,340.48	5.71	5.41
143	2,688.21	2,177.45	3.82	3.62
144	(.00)	(.00)	1.92	1.81
			------	------
Total cash received			$14,929	$14,143
			======	======

NAGGL--Net present value of SBA loan cash flow--loan not sold

Loan Amount: $250,000 Term: 144 months
Payment amt: 2,706.13 Int rate: 8.00%

Month	Ending Principal Balance	Interest Spread (1)
-----	-------	-----
0	250,000.00	
1	248,960.54	937.50
2	247,914.14	933.60
3	246,860.77	929.68
4	245,800.38	925.73
5	244,732.91	921.75
6	243,658.34	917.75
7	242,576.59	913.72
8	241,487.64	909.66
9	240,391.43	905.58
10	239,287.90	901.47
11	238,177.02	897.33
12	237,058.74	893.16
13	235,933.00	888.97
14	234,799.76	884.75
15	233,658.96	880.50
16	232,510.55	876.22
17	231,354.49	871.91
18	230,190.72	867.58
19	229,019.19	863.22
20	227,839.86	858.82
21	226,652.66	854.40
22	225,457.55	849.95
23	224,254.46	845.47
24	223,043.36	840.95
25	221,824.19	836.41
26	220,596.88	831.84
27	219,361.40	827.24
28	218,117.68	822.61
29	216,865.66	817.94
30	215,605.30	813.25
31	214,336.54	808.52
32	213,059.32	803.76
33	211,773.58	798.97
34	210,479.27	794.15
35	209,176.34	789.30
36	207,864.71	784.41
37	206,544.35	779.49
38	205,215.18	774.54
39	203,877.15	769.56
40	202,530.20	764.54
41	201,174.27	759.49
42	199,809.30	754.40
43	198,435.23	749.28
44	197,052.00	744.13
45	195,659.55	738.94
46	194,257.81	733.72

Net present value (2) of interest spread over life of loan $56,986
======

(1) Interest spread based on cost of funds at 3.5%.

(2) Net present value calculated based on discount rate of 8.0%, the note rate.

47	192,846.73	728.47
48	191,426.25	723.18
49	189,996.29	717.85
50	188,556.80	712.49
51	187,107.72	707.09
52	185,648.97	701.65
53	184,180.50	696.18
54	182,702.24	690.68
55	181,214.12	685.13
56	179,716.08	679.55
57	178,208.06	673.94
58	176,689.98	668.28
59	175,161.78	662.59
60	173,623.39	656.86
61	172,074.75	651.09
62	170,515.79	645.28
63	168,946.43	639.43
64	167,366.60	633.55
65	165,776.25	627.62
66	164,175.29	621.66
67	162,563.66	615.66
68	160,941.29	609.61
69	159,308.10	603.53
70	157,664.02	597.41
71	156,008.99	591.24
72	154,342.91	585.03
73	152,665.74	578.79
74	150,977.38	572.50
75	149,277.76	566.17
76	147,566.81	559.79
77	145,844.46	553.38
78	144,110.63	546.92
79	142,365.23	540.41
80	140,608.20	533.87
81	138,839.46	527.28
82	137,058.92	520.65
83	135,266.52	513.97
84	133,462.16	507.25
85	131,645.78	500.48
86	129,817.29	493.67
87	127,976.60	486.81
88	126,123.65	479.91
89	124,258.34	472.96
90	122,380.60	465.97
91	120,490.34	458.93
92	118,587.48	451.84
93	116,671.93	444.70
94	114,743.61	437.52
95	112,802.44	430.29
96	110,848.32	423.01
97	108,881.18	415.68
98	106,900.92	408.30
99	104,907.46	400.88
100	102,900.71	393.40
101	100,880.59	385.88
102	98,846.99	378.30

103	96,799.84	370.68
104	94,739.04	363.00
105	92,664.51	355.27
106	90,576.14	347.49
107	88,473.85	339.66
108	86,357.54	331.78
109	84,227.13	323.84
110	82,082.51	315.85
111	79,923.59	307.81
112	77,750.29	299.71
113	75,562.49	291.56
114	73,360.11	283.36
115	71,143.04	275.10
116	68,911.20	266.79
117	66,664.48	258.42
118	64,402.78	249.99
119	62,126.00	241.51
120	59,834.04	232.97
121	57,526.80	224.38
122	55,204.18	215.73
123	52,866.08	207.02
124	50,512.39	198.25
125	48,143.00	189.42
126	45,757.83	180.54
127	43,356.75	171.59
128	40,939.66	162.59
129	38,506.46	153.52
130	36,057.04	144.40
131	33,591.29	135.21
132	31,109.10	125.97
133	28,610.36	116.66
134	26,094.96	107.29
135	23,562.80	97.86
136	21,013.75	88.36
137	18,447.71	78.80
138	15,864.57	69.18
139	13,264.20	59.49
140	10,646.49	49.74
141	8,011.34	39.92
142	5,358.62	30.04
143	2,688.21	20.09
144	(.00)	10.08

Total cash received		$78,572
		======

EMERGENT
BUSINESS
CAPITAL

July 16, 1993

Mr. Tony Wilkinson, President
National Association of Government
Guaranteed Lenders, Inc.
P.O. Box 332
Stillwater, OK 74076

Dear Tony:

While it continues to "blow my mind" that our political leaders are not talking about expanding the SBA's 7(a) guaranty program as a means of generating new jobs and increased government revenue, we are happy to herewith enclose a letter from our company's chief financial officer reviewing the negative impact which the current proposals would have on our company.

But, first, let me try one more time to influence the thinking of our political leaders by citing some of the many reasons why the SBA 7(a) loan guaranty program should be expanded not curtailed.

- The 7(a) program creates and preserves private sector jobs at no net cost to the taxpayer.

- The 7(a) program creates additional revenue at every level of government. At the federal level, the program provides an estimated cumulative return on the government's investment of 264%.

- The 7(a) program leverages private sector loan funds by over 20 to 1. In government terms, a modest $364 million appropriation generates small business loans of $7.4 billion at a 4.92% subsidy rate. This is a classic and highly successful example of public private cooperation for the common good.

- Every SBA loan under the 7(a) program creates new dollars invested in building our nation's private sector. If Congress does anything to minimize the effectiveness of this program, the only sector of our economy which has been producing net new job growth will be severely damaged.

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Mr. Tony Wilkinson
July 16, 1993
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- The 7(a) loan program losses have been incredibly low. Even while compounding interest to date of charge off (rather than placing on non-accrual when the loan becomes a problem) SBA's net charge off in fiscal 1991, as a percent of total loans, was only 2.2%. Recently, SBA's annual charge off percentage has ranged from a high of 3.8% in fiscal 1987 to a low of 2.0% in fiscal 1985. Again, if one removed the accrued interest from this charge off figure the actual loss would have been substantially lower.

- The 7(a) loan program represents the "biggest bang for the buck" in our government and, in the interest of economic stimulation and job creation, Congress should be encouraging its growth and expanded utilization, not reducing its effectiveness.

I am convinced a very effective grass roots campaign by the massive small business community, including the millions of individuals whose private jobs may be in jeopardy, economic development specialists, chambers of commerce officials, trade and professional associations, local and state governmental leaders, bankers and other SBA lenders could be mounted to convince Congress of the wisdom of appropriating at least $364 million or a mere $209 million more than the administration proposed, to keep this program a positive influence in our nation's economy.

As promised, I have enclosed a copy of a letter from Kevin Mast, Executive Vice President and Chief Financial Officer of our company, which will explain the negative impact upon our company and the small business community which we serve, if the various fiscal 1994 7(a) loan program changes under consideration become operational. Compounded through out the country, these proposals, if implemented, would have a devastating affect on private sector employment within our country.

Please, in your testimony in before Senator Bumper's committee, convince them to utilize SBA's 7(a) guaranty program as a prime catalyst to help lead our nation's economic recovery.

Sincerely,

Deryl K. Schuster
President
Central Division

DKS:lw

EMERGENT
BUSINESS
CAPITAL

July 16, 1993

Mr. Tony Wilkinson, President
The National Association of Government
Guaranteed Lenders, Inc.
P.O. Box 332
Stillwater, OK 74076

Dear Tony:

As you requested, we have estimated the impact that the Fiscal '94 SBA subsidy reduction options as proposed by U.S. Senator Dale Bumpers would have on our company.

1/4% Annual Fee on Outstanding Guaranteed Portion:

This would have reduced our servicing revenue by 25% for the year ended December 31,1992 and for the six months ended June 30,1993. Some lending institutions will decide not to participate in the SBA 7(a) program as a result of this fee, thus further hurting small businesses ability to be created, to expand, or to survive.
The government tax revenues will be reduced due to the reduced revenues of the lenders, and will be further reduced due to the reduced revenues of the small businesses who are unable to obtain financing, and Government expenditures will be increased due to additional people on unemployment because the small businesses were not able to be created, expanded or survive.

This proposal would have reduced our return on equity from 8.72% to 8.55% for 1992 and from 8.62% to 8.23% (annualized) for 1993. This item would have a much bigger impact on others in the industry whose servicing portfolio is larger, and would have a much greater impact on us in the future as our servicing portfolio grows.

50% Tax on Premiums in excess of 10%:

This would have reduced our pre-tax income by 56% in 1992 and 63% in the first six months of 1993. Again, this would lead to devastating results when considering the industry as a whole and how it would impact small businesses and our economy. This proposal alone would have reduced our return on equity from 8.72% to 5.86% for 1992 and from 8.62% to 5.91% (annualized) for 1993.

Reduced Guaranty Percentage:

This would definitely have an adverse impact on the flow of capital to small businesses. Lending institutions all have capital

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Small Business Lending Company

Tony Wilkinson
July 16, 1993
Page Two

considerations and limitations. By increasing the total portion of SBA loans that the lending institution must retain in it's portfolio or increasing it's risk (both through reduced guarantees), the total capital that the lending institution has available to reinvest in additional lending to small businesses is reduced. Our loan volume for 1992 and 1993 would have been reduced by 30% if the reduced guaranty percentages had been in place. Many worthy businesses would have been unable to obtain the financing they needed. This proposal would have decreased our revenues by over 25%. This proposal would have reduced our return on equity from 8.72% to -1.34% for 1992 and from 8.62% to 3.04% (annualized) for 1993.

As has been shown over and over again through independent studies (i.e. the study performed by Price Waterhouse, one of the largest accounting firms in the world), the SBA program provides a net benefit to the Government due to it's positive effect on the economy and the creation of jobs and expansion of business. This is a program that should be given full support to get the economy back on track. By trying to scale back a successful program like the 7(a) program, the minimal short-term savings to the government will be quickly eaten by the significant long-term costs that will follow as a result of the detrimental impact these changes will have to small businesses and the economy.

The Administration's proposals to reduce the guaranty percentages and impose a 50% annual fee on loans sold on the secondary market would be even more devastating than those items reflected above.

If all of the options proposed by Senator Bumpers were implemented, our return on equity would have decreased to -6.4% in 1992 and to -.05% (annualized) for 1993.

I appreciate the opportunity to voice my concerns on these important issues.

Sincerely,

Kevin J. Mast
Vice President - Finance and
Chief Financial Officer

KJM/km

7(a) Usage by Guaranty Percentage -- Total Dollars

Guaranty Percent	Total Amount	Percent	Cumulative Amount	Cumulative Percent
90%	$498,018,271	9.16%	$498,018,271	9.16%
89%	$7,331,571	0.13%	$505,349,842	9.29%
88%	$12,863,700	0.24%	$518,213,542	9.53%
87%	$14,763,809	0.27%	$532,977,351	9.80%
86%	$13,833,932	0.25%	$546,811,283	10.05%
85%	$1,800,983,053	33.11%	$2,347,794,336	43.17%
84%	$144,981,638	2.67%	$2,492,775,974	45.83%
83%	$207,741,092	3.82%	$2,700,517,066	49.65%
82%	$195,277,665	3.59%	$2,895,794,731	53.24%
81%	$189,378,777	3.48%	$3,085,173,508	56.73%
80%	$1,489,038,953	27.38%	$4,574,212,461	84.10%
79%	$34,612,806	0.64%	$4,608,825,267	84.74%
78%	$60,410,292	1.11%	$4,669,235,559	85.85%
77%	$21,555,683	0.40%	$4,690,791,242	86.25%
76%	$29,523,337	0.54%	$4,720,314,579	86.79%
75%	$248,795,169	4.57%	$4,969,109,748	91.36%
74%	$16,165,969	0.30%	$4,985,275,717	91.66%
73%	$16,163,067	0.30%	$5,001,438,784	91.96%
72%	$13,121,650	0.24%	$5,014,560,434	92.20%
71%	$32,699,643	0.60%	$5,047,260,077	92.80%
70%	$44,955,431	0.83%	$5,092,215,508	93.63%
69%	$8,871,284	0.16%	$5,101,086,792	93.79%
68%	$27,721,250	0.51%	$5,128,808,042	94.30%
67%	$9,657,900	0.18%	$5,138,465,942	94.48%
66%	$13,192,623	0.24%	$5,151,658,565	94.72%
65%	$19,643,711	0.36%	$5,171,302,276	95.08%
64%	$9,673,300	0.18%	$5,180,975,576	95.26%
63%	$11,418,585	0.21%	$5,192,394,161	95.47%
62%	$24,941,486	0.46%	$5,217,335,647	95.93%
61%	$8,570,926	0.16%	$5,225,906,573	96.09%
60%	$25,754,309	0.47%	$5,251,660,882	96.56%
59%	$8,202,577	0.15%	$5,259,863,459	96.71%
58%	$6,822,250	0.13%	$5,266,685,709	96.84%
57%	$14,678,988	0.27%	$5,281,364,697	97.11%
56%	$8,214,833	0.15%	$5,289,579,530	97.26%
55%	$13,428,358	0.25%	$5,303,007,888	97.50%
54%	$7,076,000	0.13%	$5,310,083,888	97.63%
53%	$11,537,700	0.21%	$5,321,621,588	97.85%
52%	$5,048,400	0.09%	$5,326,669,988	97.94%
51%	$1,007,600	0.02%	$5,327,677,588	97.96%
50%	$32,797,059	0.60%	$5,360,474,647	98.56%

7(a) Usage by Guaranty Percentage -- Total Dollars

49%	$3,623,940	0.07%	$5,364,098,587	98.63%
48%	$5,999,000	0.11%	$5,370,097,587	98.74%
47%	$5,780,586	0.11%	$5,375,878,173	98.84%
46%	$5,557,000	0.10%	$5,381,435,173	98.95%
45%	$6,197,000	0.11%	$5,387,632,173	99.06%
44%	$3,807,000	0.07%	$5,391,439,173	99.13%
43%	$2,792,100	0.05%	$5,394,231,273	99.18%
42%	$5,329,400	0.10%	$5,399,560,673	99.28%
41%	$2,017,805	0.04%	$5,401,578,478	99.32%
40%	$2,782,381	0.05%	$5,404,360,859	99.37%
39%	$800,000	0.01%	$5,405,160,859	99.38%
38%	$2,257,257	0.04%	$5,407,418,116	99.42%
37%	$3,807,552	0.07%	$5,411,225,668	99.49%
36%	$1,600,000	0.03%	$5,412,825,668	99.52%
35%	$3,476,011	0.06%	$5,416,301,679	99.59%
34%	$557,000	0.01%	$5,416,858,679	99.60%
33%	$4,500,000	0.08%	$5,421,358,679	99.68%
32%	$800,000	0.01%	$5,422,158,679	99.69%
31%	$2,350,000	0.04%	$5,424,508,679	99.74%
30%	$1,345,500	0.02%	$5,425,854,179	99.76%
29%	$103,500	0.00%	$5,425,957,679	99.76%
28%	$311,855	0.01%	$5,426,269,534	99.77%
27%	$1,530,000	0.03%	$5,427,799,534	99.80%
26%	$120,000	0.00%	$5,427,919,534	99.80%
25%	$4,256,000	0.08%	$5,432,175,534	99.88%
23%	$1,137,500	0.02%	$5,433,313,034	99.90%
21%	$500,000	0.01%	$5,433,813,034	99.91%
20%	$502,000	0.01%	$5,434,315,034	99.92%
18%	$4,000,000	0.07%	$5,438,315,034	99.99%
15%	$180,000	0.00%	$5,438,495,034	100.00%
8%	$255,000	0.00%	$5,438,750,034	100.00%

7(a) Usage by Guaranty Percentage -- Number of Loans

Guaranty Percent	Number Of Loans	Cumulative Loans	Cumulative Percent
90%	6,394	6,394	29.25%
89%	81	6,475	29.62%
88%	151	6,626	30.31%
87%	171	6,797	31.09%
86%	161	6,958	31.83%
85%	6,010	12,968	59.32%
84%	498	13,466	61.60%
83%	630	14,096	64.48%
82%	613	14,709	67.28%
81%	520	15,229	69.66%
80%	5,205	20,434	93.47%
79%	54	20,488	93.71%
78%	83	20,571	94.09%
77%	41	20,612	94.28%
76%	40	20,652	94.46%
75%	446	21,098	96.51%
74%	28	21,126	96.63%
73%	21	21,147	96.73%
72%	27	21,174	96.85%
71%	41	21,215	97.04%
70%	135	21,350	97.66%
69%	10	21,360	97.70%
68%	34	21,394	97.86%
67%	22	21,416	97.96%
66%	22	21,438	98.06%
65%	37	21,475	98.23%
64%	14	21,489	98.29%
63%	18	21,507	98.38%
62%	27	21,534	98.50%
61%	14	21,548	98.56%
60%	51	21,599	98.80%
59%	13	21,612	98.86%
58%	11	21,623	98.91%
57%	18	21,641	98.99%
56%	16	21,657	99.06%
55%	15	21,672	99.13%
54%	9	21,681	99.17%
53%	15	21,696	99.24%
52%	10	21,706	99.29%
51%	2	21,708	99.30%
50%	52	21,760	99.53%

7(a) Usage by Guaranty Percentage -- Number of Loans

49%	8	21,768	99.57%
48%	7	21,775	99.60%
47%	9	21,784	99.64%
46%	5	21,789	99.67%
45%	11	21,800	99.72%
44%	4	21,804	99.73%
43%	5	21,809	99.76%
42%	7	21,816	99.79%
41%	2	21,818	99.80%
40%	6	21,824	99.83%
39%	1	21,825	99.83%
38%	4	21,829	99.85%
37%	3	21,832	99.86%
36%	2	21,834	99.87%
35%	5	21,839	99.89%
34%	2	21,841	99.90%
33%	2	21,843	99.91%
32%	1	21,844	99.92%
31%	1	21,845	99.92%
30%	3	21,848	99.94%
29%	1	21,849	99.94%
28%	1	21,850	99.94%
27%	1	21,851	99.95%
26%	1	21,852	99.95%
25%	3	21,855	99.97%
23%	2	21,857	99.98%
21%	1	21,858	99.98%
20%	1	21,859	99.99%
18%	1	21,860	99.99%
15%	1	21,861	100.00%
8%	1	21,862	100.00%

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Save The Small Business Administration

When President Bill Clinton's stimulus bill died, one effort that suffered was the Small Business Administration's loan-guarantee program. Under it, the SBA guarantees 90 percent of the money lent to small companies that can't get financing elsewhere. Now, the SBA is about to run out of money and to suspend the program. This result flies in the face of what both the president and Republicans want.

Small businesses create the majority of new jobs in the economy. But they can't do it without capital, much of which they must borrow. The SBA loan-guarantee program has been essential to the growth of many of them. The government pledges to repay up to $750,000 of any loan made. That guarantee also permits private lenders to accept long repayment periods, crucial to small businesses' ability to manage a loan of any kind.

Last year, the SBA saw a 37 percent increase in loan demand. Yet the administration, to save money, plans to cut financing for loan guarantees by 12.5 percent next year. This move makes no sense. Replenishing and holding constant the existing SBA fund this year is estimated to be worth 12,000 jobs alone. Cutting the program would slow future job creation. It's penny wise and pound foolish.

Many in Congress, as well as the White House, want to find a way to give the SBA at least the money it needs to keep operating. A supplemental appropriation is a possibility, but many Republicans are still insisting that other spending be cut to make up for it. This demand also was the response to the Bush administration's attempt to fund the program, but Congress couldn't find something else to cut. Finally, George Bush wisely accepted an emergency bill raising the federal deficit.

That's what President Clinton should again propose, and what this time Congress — the GOP in particular — should support to restore the SBA.

United States Senate

COMMITTEE ON SMALL BUSINESS

WASHINGTON, DC 20510-6350

July 9, 1992

The Honorable George Bush
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.,
Washington, D.C. 20500

Dear Mr President:

We, the undersigned Republican Senators, are writing to express our strong support for the Small Business Administration's 7(a) loan program. The SBA 7(a) program is an example of the public and private sectors coming together successfully to promote small business development and job creation with a minimum of government intervention.

Small business entrepreneurs have led the way in creating new job opportunities, particularly for women, minorities, and young people. Two out of every three new jobs in the past decade have been created by small business; and small business ownership has provided the best opportunity for all Americans to climb the economic ladder.

The SBA 7(a) program is an important source of long-term financing for the nation's small business sector which simply is not available through conventional sources. Small businesses, which represent America's entrepreneurial spirit and carry a higher degree of risk, continue to have trouble obtaining investment capital and credit. However, recent studies conclude that SBA borrowers have higher sales, create more jobs, pay more taxes and have greater after-tax profits than small businesses that have not utilized the SBA program.

The SBA 7(a) program is one of the greatest success stories of the past twelve years. In 1980 the program was experiencing high default rates, but through hard work and proper management SBA's problem loans in 1989 were one-seventh of what they were in 1980. The 7(a) program is now operating soundly. Independent studies estimate that the government's actual rate of return on the 7(a) program may be as high as 264% – the program quickly generates far more in additional taxes that it costs.

We agree with the Administration's focus on creating economic growth and jobs by concentrating on small business, and appreciate your commitment to these goals. This is a positive direction for our nation and for the Republican party.

Best regards,

Robert W. Kasten, Jr.

Connie Mack

The Honorable George Bush
July 9, 1992
Page 2

Robert Dole

John McCain

Alfonse M. D'Amato

Christopher S. Bond

Bob Packwood

Steve D. Symms

Mitch McConnell

Dan Coats

Mark O. Hatfield

John Seymour

Richard G. Lugar

Bob Smith

Arlen Specter (ltr to Pres. SBA § 7(a) program)

Larry Pressler

The Honorable George Bush
July 9, 1992
Page 3

Don Nickles

Senator BUMPERS. First of all, Tony, I want to say that I share your concern about the lowered subsidy. In a perfect world, I certainly would not be offering to cut the present subsidy in half, and I am worried about it. I do not mind telling you that I share your concern, and I certainly understand your concern, and I especially appreciate your rather magnanimous attitude about it.

As you know, what we are trying to do is to meet the unbelievable, unprecedented demand on the 7(a) program in the face of this staggering deficit that we are trying to get under control.

If there were some better way to do it, I would do it, and quite frankly, when you listen to the figures that Mr. Bowles gave about how many jobs are created with the 7(a) program and how much revenue that returns to the Treasury and so on, you have to ask what on earth are we doing, why are we not funding this program at $10 billion to $12 billion?

Mr. WILKINSON. Absolutely.

Senator BUMPERS. But you know, I am just dealing with the reality, as I say. Maybe some day I will be able to educate all the Members of the Senate that are not on this Committee and do understand what a bargain—what a bargain this program is.

Let me say one other thing. I say this in defense of the President. I can tell you the Bumpers capital gains proposal was dead. Senator Moynihan I do not think, frankly, liked it. I think there were some people over at Treasury that did not like it, and you know, when people in that category, in their positions do not like something and it is before their committee or their jurisdiction, it just does not happen.

But I can tell you that the President has weighed in with all the Members of the Finance Committee and the House Ways and Means Committee, and of course they had a $50 million limit. You know, they had the $50 million bill in their version of it, and the President has told them virtually every day now for about 10 days that he wants that capital gains bill.

Again, you know, I do not make any great representations about what that bill will do, but I can tell you what the studies show on that. It shows that if you pass that bill, just the House version, which will be—you know, it curbs my original bill, and quite frankly it cuts the bill the Senate has passed twice.

You know, everybody wants that bill as long as they know the President is going to veto it, or as long as they know it is not going to become law, but once it looks like it is going to become law and the President is going to sign it, everybody finds all kinds of reasons not to be for it.

I do not make any personal representations about what a panacea that is going to be, but here is what the studies show, that roughly $700 million a year will flow to small business start-ups and small business expansions that would not otherwise flow, that the cost of the Bumpers bill over the next 4 years would be about $900 million, but here is what you get in exchange for it.

You get 17,000 jobs a year for that $700 million invested.

You get 85,000 jobs over a 4-year period for roughly the $900 million in costs, and incidentally, I disagree with that cost. You know how CBO reaches figures like that, because you know, under the Bumpers proposal you have to hold the stock 5 years before you get

any benefit, and so you might say well, how in the world could it cost anything? Nobody is going to get the benefit of it until they have held the stock for 5 years.

CBO goes through the most unbelievable gymnastics in reaching some of these figures. They say, well, that is money that would have been invested some place else that costs the Treasury during this period of time, and they have a whole bunch of little, arcane things like that. In my opinion, most of them are just pure nonsense. I do not think it is going to cost $900 million, just using their figures. If $900 million over the next 5 years to produce 85,000 jobs ain't a bargain, I do not know one.

There again, the 7(a) program is about the only program I can think of that produces jobs any cheaper than that, but for the benefit of your organization, Tony, and for the record, I feel comforted now that that bill is going to become law simply because the President has weighed in very heavily and just told the conferees that he wants it.

Has your organization—I assume your organization has taken a position on that, have they not?

Mr. WILKINSON. On the Bumpers bill?

Senator BUMPERS. Yes.

Mr. WILKINSON. I will not profess to be an expert on that, but based upon what I do know, we would be in support of the bill.

Senator BUMPERS. Do you have any alternatives—your organization have any alternatives to suggest on how to get the subsidy rate down, other than what we are doing?

Mr. WILKINSON. First of all, I want to reiterate the fact that cutting the subsidy will negatively impact in some form or fashion small businesses. I believe action on this really belongs to the appropriations process, but unfortunately solving the credit crunch through the use of a proven program such as the 7(a) program does not appear to be a high priority on the part of the budgeteers.

Let me also say that any change must be fair and equitable to all the parties involved, and when we get through we must still have a deliverable product that, if we just keep cutting for cutting's sake and we have nothing left to deliver, then any estimate of demand is not worthwhile.

Again, I have been working with the staff of this Committee, with the staff of the House Small Business Committee and with the staff at SBA to work on a whole range of different scenarios that we could possibly look at. Our board has met and taken a position on what we would prefer to see happen.

Unfortunately, the subsidy numbers that we used in our debate that day have now been proven to be different, so I am really not quite sure what bang for the buck we are getting on which alternatives, and I would like to stay actively involved with the Committee staff and the SBA to make sure that what changes do occur, again, are fair, equitable, and still leave us with a deliverable product.

Senator BUMPERS. Do you have an estimate of what you think—and incidentally, do you think the biggest detriment to the program by reducing the subsidy is going to be the banks drawing back a little bit because of the smaller guarantee? Do you think that is a real impediment to the program?

Mr. WILKINSON. First of all, you have a whole hodgepodge of lenders involved in the program, and so different changes will affect various lenders differently.

Commercial banks have simply so much in capital, or so many dollars they can put in to the long-term portion of these loans. Asking them to take a bigger piece of each loan they do really limits their ability on their overall portfolio.

The example in my written testimony is, a lender that has $1 million that they can tie up in terms of long-term loans at a 90 percent guarantee can make $10 million in loans, at a 75 percent guarantee that same million only goes to $4 million in loans. So the leveraging factor is cut severely as that guarantee percentage drops, and that would be a concern on our part, that active lenders will see their overall lending ability shrink.

We have already got lenders today who are being criticized by banking regulators for concentration in the unguaranteed portions of SBA loans. To ask them to now take even more share of each loan is going to make their lending operations have to pull back.

Senator BUMPERS. Assuming S. 1274 becomes law—well, maybe this does not affect it. The question really is, what do you think the demand for 7(a) loans is going to be in 1994? Would you hazard a guess?

Mr. WILKINSON. Well, the first answer to that, it depends upon what the structure of the program is. Under optimistic circumstances I see the demand as high as $9 billion, and it could possibly be higher than that. This program has been growing. I believe it was 88 percent over the last 3 years. We are going to grow another 23, 25 percent this year. I agree with Mr. Bowles that small businesses are starved for capital. This is the program they have been turning to. I just hope it is still there when we get into next year.

With all the changes, a couple of things are going to happen. You could see lenders have to pull back on operations. You will see lenders who could lose profitability, which means they are going to lose interest, or you could see an increase in the cost of the transaction to the borrower.

This program put out $5.6 billion in loans last year to the small business community at an average interest rate of prime plus 2, a very competitive interest rate. I would guess that one of the outcomes of this will be that that average interest rate will increase, and I hate to see that. We need to be supporting the small business community, but the program has got to work for both the bank and the borrower for this to work. It has got to be a win-win situation for all the parties involved.

Senator BUMPERS. Tony, on a subject we were talking about a while ago that is not totally related to this, the American Bankers Association president, who happens to be from Arkansas and a good friend of mine, testified before this Committee 4 or 5 months ago.

He presented what to me should have been an embarrassing list, embarrassing to every United States Senator and every Member of Congress, a list of all the laws that we have passed in the last 10 or 15 years that bring about the very result you heard me talk about a moment ago—the kind of paperwork and cost to the borrower.

Senator Chafee and I have introduced a bill that just marginally reduces some of the problem. For example, we raise the requirement of an appraisal. Instead of requiring an appraisal on anything of $100,000 or more, we raise that threshold to $200,000, but I think, you know, most of these are the result of the S&L debacle, and most of these are regulations that have been required by FDIC and the Comptroller to make sure we do not have any more S&L debacles, but it has obviously gone way overboard.

Now, people will say well, look how vibrant the banks are, they are making more money than they have ever made, the FDIC fund is being restored, and so on, but there is a whole host of things that we put in there that are supposed to benefit the consumer that are obviously costing the consumer money.

The banks, whatever that paperwork is, whatever the charges for it are, they are going to pass it on to the consumer one way or another, and so I do not mind telling you, I am going to have the American Bankers Association come to my office and we are going to sit down and talk about some really honest to goodness legislation to eliminate the needless, senseless kinds of requirements, leave those things that really make sense in place.

But so much of this is senseless, and it is especially senseless in small towns. I have said, you know, you take Fort Smith, AR, a city of 80,000 to 100,000 people, there is not a banker in that town that cannot tell you within $5,000 what every house in that town is worth, and yet you go in there to get a loan, and they want you to pay $300 to $500 for an appraiser. Incidentally, you know, that appraiser is supposed to be a licensed appraiser. You cannot just use some guy who is in the business any more—and so it goes.

Mr. WILKINSON. I would say the regulation alphabet soup that the banking regulators have dished out is stifling. It is very expensive, and I would hope that we could find ways to curtail some of the paperwork. Couple that with FIRREA, and you can see why demand in the 7(a) program is skyrocketing.

Senator BUMPERS. Senator Coverdell.

Senator COVERDELL. I would add that I think the cost figure for the regulation in banking in Georgia is now about $391 million a year, and I would echo the Chairman's comments. We are shooting ourselves in the foot, and we have got to get our hands around it.

Senator BUMPERS. How many—do you have any idea how many SBA 7(a) loans are outstanding right now? Does anybody know that?

Mr. WILKINSON. I want to guess it is around 170,000.

Senator BUMPERS. I was looking at your chart here showing that 1992 they barely made around 23,000 loans, and that is up from 14,000 in 1986. My guess is the average loan was also higher in 1992 than it was.

Mr. WILKINSON. It has crept up somewhat. The average loan last year was right at $251,000 up from $250,000 the year before that.

Senator BUMPERS. Your charts are really great, Tony. I enjoy looking at things like that. I look at the SBA loan volume, for example, compared to commercial and industrial bank loans, which have been going down almost as fast as SBA loans have been going up.

Well, we will not pursue this any further.

Mr. WILKINSON. I guess the one question I would ask, are the charts good enough for an extra $50 million appropriation?

[Laughter.]

Senator BUMPERS. If I had my way about it, it would be.

Well, Tony, I read your statement, which was excellent, and I am not finished looking at all your charts, but they are very impressive, and we will conclude the hearing with that.

Thank you very much for being with us.

[Whereupon, at 3:30 p.m, the Committee adjourned.]

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